

A COMPARATIVE ANALYSIS OF THE BUDGET PROCESS  
IN THE VENEZUELAN AND U.S. NAVIES

Carlos A. Colmenares



# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



# THESIS

A COMPARATIVE ANALYSIS OF THE BUDGET PROCESS  
IN THE VENEZUELAN AND U.S. NAVIES

by

Carlos A. Colmenares

December 1979

Thesis Advisor:

J. D. Horton

Approved for public release; distribution unlimited

T192012



SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM	
1. REPORT NUMBER		2. GOVT ACCESSION NO.	
		3. RECIPIENT'S CATALOG NUMBER	
4. TITLE (and Subtitle)  A Comparative Analysis of the Budget Process in the Venezuelan and U.S. Navies		5. TYPE OF REPORT & PERIOD COVERED Master's Thesis; December 1979	
6. AUTHOR(s)  Carlos A. Colmenares		8. CONTRACT OR GRANT NUMBER(s)	
9. PERFORMING ORGANIZATION NAME AND ADDRESS Naval Postgraduate School Monterey, California 93940		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS	
11. CONTROLLING OFFICE NAME AND ADDRESS Naval Postgraduate School Monterey, California 93940		12. REPORT DATE December 1979	
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office) Naval Postgraduate School Monterey, California 93940		13. NUMBER OF PAGES 111	
		15. SECURITY CLASS. (of this report) Unclassified	
		15a. DECLASSIFICATION/DOWNGRADING SCHEDULE	
16. DISTRIBUTION STATEMENT (of this Report)  Approved for public release; distribution unlimited.			
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)			
18. SUPPLEMENTARY NOTES			
19. KEY WORDS (Continue on reverse side if necessary and identify by block number)  Budget    Programming Budgeting in the The Federal Budget Cycle    U.S. Navy The Venezuela Budget Process    Budgeting in the Venezuelan Navy			
20. ABSTRACT (Continue on reverse side if necessary and identify by block number)  Budgeting is the process by which public expenditure decisions are made. Budgetary procedures involve: formulation and transmittal, congressional action, and execution and auditing. In the United States, as in Venezuela, the formulation procedure is initiated by the executive branch, but during the congressional process the executive formulation may be altered. Enforcement of budgetary requirements lies with the executive branch and auditing with the Comptroller General. (continued)			





In the United States Department of Defense, the Planning, Programming and Budgeting System (PPBS) was developed to facilitate budgeting in terms of military forces. The U.S. Navy summarizes the concept of PPBS as follows: in response to an appraised threat a strategy is developed; in support of this strategy force requirements are developed; based on these requirements programs are developed to provide ships, aircraft, weapon systems and manpower over a period of time. The Venezuelan Armed Forces has developed a PPBS, which is quite similar to that which exists in the U.S., but the two systems are not the same because of philosophical differences between the two countries. Complete implementation of the Venezuelan PPBS is progressing slowly because of many barriers; these include: lack of well-trained personnel, the hesitancy of personnel to adopt a new system, and frequent changes in political policy.





Approved for public release; distribution unlimited.

A Comparative Analysis of the Budget Process  
in the Venezuelan and U.S. Navies

by

Carlos A. Colmenares  
Commander, Venezuelan Navy  
B.S., Escuela Naval de Venezuela, 1962

Submitted in partial fulfillment of the  
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL  
December 1979



## ABSTRACT

Budgeting is the process by which public expenditure decisions are made. Budgetary procedures involve: formulation and transmittal, congressional action, and execution and auditing. In the United States, as in Venezuela, the formulation procedure is initiated by the executive branch, but during the congressional process the executive formulation may be altered. Enforcement of budgetary requirements lies with the executive branch and auditing with the Comptroller General.

In the United States Department of Defense, the Planning, Programming and Budgeting System (PPBS) was developed to facilitate budgeting in terms of military forces. The U.S. Navy summarizes the concept of PPBS as follows: in response to an appraised threat a strategy is developed; in support of this strategy force requirements are developed; based on these requirements programs are developed to provide ships, aircraft, weapon systems and manpower over a period of time. The Venezuelan Armed Forces has developed a PPBS, which is quite similar to that which exists in the U.S., but the two systems are not the same because of philosophical differences between the two countries. Complete implementation of the Venezuelan PPBS is progressing slowly because of many barriers; these include: lack of well-trained personnel, the hesitancy of personnel to adopt a new system, and frequent changes in political policy.



## TABLE OF CONTENTS

I.	INTRODUCTION-----	9
A.	BACKGROUND-----	9
B.	STATEMENT OF THE PROBLEM-----	10
C.	OBJECTIVE OF THIS STUDY-----	11
II.	THE BUDGET OF THE UNITED STATES GOVERNMENT-----	13
A.	BRIEF HISTORICAL SKETCH OF THE BUDGETARY PROCESS-----	13
B.	FUNCTIONAL CLASSIFICATIONS-----	16
C.	THE FEDERAL BUDGET CYCLE-----	24
	1. Executive Formulation and Transmittal-----	25
	2. Congressional Action-----	26
	3. Budget Execution and Control-----	28
	4. Review and Audit-----	28
III.	PROGRAM BUDGETING IN THE U.S. NAVY-----	30
A.	THE RESOURCE ALLOCATION PROCESS-----	30
	1. The DOD Budget Process-----	30
	a. The Planning Phase-----	33
	b. The Programming Phase-----	35
	c. The Budgeting Phase-----	37
	2. The Resource Management System (RMS)-----	38
	a. Programming and Budgeting-----	39
	b. Management of Resources for Operating Units-----	40
	c. Management of Inventory and Similar Assets-----	41





d.	Management of Acquisition, Use and Disposition of Capital Assets-----	41
B.	BUDGET FORMULATION-----	42
1.	The Comptroller's Role-----	42
2.	Economic Analysis-----	43
3.	Budget Preparation-----	44
C.	BUDGET EXECUTION AND CONTROL-----	46
1.	Flow of Funding Authority-----	47
2.	RMS Accounting and Reporting-----	48
IV.	THE BUDGET IN THE VENEZUELAN GOVERNMENT-----	58
A.	AN INTRODUCTION TO VENEZUELA-----	58
1.	Political History-----	58
2.	Government Structure-----	61
B.	THE BUDGET AND MODERN GOVERNMENT-----	63
1.	Development of Budgeting in Venezuela-----	63
2.	The Meaning of the New Budgetary Reform-----	65
3.	Implementation of Budgetary Reform-----	65
4.	Sectorial (Functional) Classification-----	66
C.	THE PHASES OF BUDGETING-----	68
1.	Formulation and Transmittal-----	68
2.	Congressional Action-----	69
3.	Budget Execution and Control-----	70
4.	Review and Audit-----	71
V.	PROGRAM BUDGETING IN THE VENEZUELAN NAVY-----	74
A.	THE RESOURCE ALLOCATION PROCESS-----	74
1.	The Ministry of Defense Budget Process-----	74
a.	Factors Influencing the Budget Process---	75



b.	Force Structure-----	79
c.	Organizational Elements-----	82
d.	The Planning Phase-----	83
e.	The Programming and Budgeting Phase-----	85
f.	Major Programs-----	86
2.	Budget Formulation-----	87
a.	The Director of Finance's Role-----	87
b.	Budget Execution and Control-----	88
VI.	COMPARATIVE ANALYSIS OF THE UNITED STATES AND THE VENEZUELAN NAVY BUDGET PROCESS-----	89
A.	THE BUDGET CYCLE-----	90
1.	Executive Formulation and Transmittal-----	90
2.	Congressional Action-----	91
3.	Budget Execution and Control-----	93
4.	Review and Audit-----	95
B.	THE PLANNING, PROGRAMMING, AND BUDGETING SYSTEM--	96
1.	The Planning Phase-----	96
2.	The Programming Phase-----	98
3.	The Budgeting Phase-----	100
4.	Program Structure-----	102
VII.	CONCLUSIONS-----	105
	LIST OF REFERENCES-----	108
	INITIAL DISTRIBUTION LIST-----	111



## ACKNOWLEDGEMENTS

I would like to gratefully acknowledge the guidance of my advisor, Commander Jerry Horton, and my second reader, Commander Edwin A. Fincke. I would also like to express my thanks to Commander Jose Frantzis Sanchez of the Venezuelan Navy who devoted his time collecting the necessary information to make the analysis possible, and to my wife Morelia for her suggestions and unfailing support.





## I. INTRODUCTION

### A. BACKGROUND

One of the most important aspects of a public budget is its use as an instrument in the management of a nation's economy. The degree of use varies from country to country in accordance with the importance of the public sector in the combined total of public and private economic activity.

Jesse Burkhead - Professor of Business Administration at the University of California - has stated, "The growth in the size and complexity of the public sector in both developed and underdeveloped countries is undoubtedly one of the most important recent political and economic changes. It is a phenomenon that has slowly altered the structures of economic systems and, of course, the distribution of economic power within these systems." [6- 63].

The budget is the central nervous system of the public economy, in which financial resources are translated into human purposes. Since resources are limited, the budget is used as a mechanism for allocating resources.

The development of budgeting, both in the United States and in Venezuela, has been a part of the economic development of these countries - of industrialization, of the growth of national government, and of the development of skills in accounting, finance and administration. Budgeting has



paralleled the political and economic changes that have occurred in the structure of societies. In some cases, as in the U.S., budgeting has reflected and formalized changes which have already occurred. In other cases, as in Venezuela, the development of governmental budgeting has assisted and accelerated economic and political changes still in progress.

On the surface it would appear that economic development would require, and provide the incentive for, rapid improvement in the systems and techniques of governmental budgeting. But this is not the case in Venezuela where experience with Program Budgeting since 1962 has been limited.

In every country, governments play leading roles in planning and implementing programs for development. The budget and the budgetary process are the major instruments employed for such purposes, and their importance requires the transfer of budgeting experience from countries which have reached a higher stage of economic development to those countries which are still struggling to reach it.

#### B. STATEMENT OF THE PROBLEM

Since program budgeting was initiated in Venezuela, the process has been one of continuous improvement. This does not mean that the process has reached a satisfactory level of efficiency, but that, year by year, it has brought a more efficient management of resources.

The Venezuelan budget process has experienced some problems that have detracted from its effectiveness. These are:



- 1) Lack of agreement between budgeteers and planners.
- 2) Lack of coordination between sectors and functional activities.
- 3) Anachronisms in the legislature procedure.
- 4) Budget offices lack influence.
- 5) Military planning and budgeting are not compatible. The costs of the developed plans have always been much greater than the amounts approved by the Congress, since the planners have performed their planning with little regard to budget constraints.
- 6) When the plan and the budget were presented to the Minister of Defense for budget review, and the money requested exceeded that appropriated, he would simply reduce the scope of the military program.
- 7) Most forces and weapon systems have been decided upon without a cost-benefit comparison of valid alternatives. This kind of decision has often led to an over-commitment of funds and an inefficient allocation of resources.
- 8) Each military service independently prepares its basic budget submission, allocating its request among its own functions and activities and exercising its own priorities. This causes each service to favor its own unique missions to the detriment of joint missions.

The new Venezuelan budgetary reform legislation is an attempt to improve the system, but, due to the recentness of its enactment, it was not possible for the author to evaluate its results.

#### C. OBJECTIVE OF THIS STUDY

The purposes of this thesis were to analyze the budget processes of the United States and the Venezuelan governments, to analyze program budgeting in the U.S. and the Venezuelan Navies, and to compare the most important aspects of both systems on the basis of expert opinions in the field.





Also, to identify some problems in Venezuelan PPBS development, and to suggest solutions to those problems.



## II. THE BUDGET OF THE UNITED STATES GOVERNMENT

### A. BRIEF HISTORICAL SKETCH OF THE BUDGETARY PROCESS

The financial plan of the Federal Government of the United States has been characterized by its increasing unity. Its development has fallen into two major stages: the period from 1789 to 1921 and the period from 1921 until the present (1979).

During the first period the budget making function was shared, in a haphazard way, by the various executive departments of the government and by Congress. The preparation of the preliminary estimates of expenditures was undertaken by the heads of departments with the Treasurer acting merely as a transmittal agency to the Congress, although he was responsible for the submission of revenue estimates. According to Arthur Smithies, a noted budget authority: "The history of the period shows that the Congress has never made effective and systematic use of the review of actual operations as an instrument of control, in part because the Congress has been more anxious to control the executive than to promote its efficiency." [25- 49]. During this part of the history of the United States, federal finances were characterized by a lack of coordination in the formulation and adoption of the budget, and the method of expenditure control was only moderately successful.



The creation of the Bureau of the Budget in 1921 was a major step in the direction of a more orderly management of the financial affairs of the federal government, and it marked the beginning of a major stage in federal budgetary history. The Bureau of the Budget (BOB) was created to assist the President in the preparation and the execution of the annual budget. Prior to this time the President played no part in the budget formulation or execution process. The BOB was placed in the Treasury Department, with a Director of the Budget appointed by and directly responsible to the President. [25- 73]. The General Accounting Office (GAO) was also created, headed by the Comptroller General. The Comptroller General is responsible to Congress; in 1921 his chief functions were to audit and authorize expenses as they occurred and to review them at the end of the fiscal periods. [9- 403].

The BOB remained under the Treasury Department until 1939. At that time, under the Reorganization Act of the same year, it was transferred and placed within the Executive Office of the President. The Reorganization Act of 1939 assigned additional functions to the BOB, including analyzing administrative and financial implications of proposed legislation, controlling statistics and questionnaires, acting as the Administrative-Management agency for the President, and, above all, planning in terms of fiscal policy. [9- 403].

Since the system was inaugurated in 1921 and amended in 1939, many recommendations for changes in the budgetary process have been made and others are continually being





proposed to make the U.S. Federal Budget both more output oriented and executive in nature. Three of the more important of these changes were: the introduction of the Planning, Programming and Budgeting System (PPBS), reorganization of BOB, and implementation of Zero Base Budgeting (ZBB).

PPBS was not a new creation in 1960, according to Thomas Lynch, Professor of Political Science at the Mississippi State University: "In 1907, the New York Bureau of Municipal Research developed the first Program Memorandum. The Hoover Commission advocated performance budgeting and budgets were organized into programs in the 1940s. In the 1930s, welfare economics developed many of the same techniques later associated with PPB. In the 1950s, operations research and systems analysis also developed techniques later associated with PPB." [15- 30].

PPBS was introduced into the Department of Defense (DOD) in the early 1960s by then Secretary of Defense Robert McNamara. In 1965 President Johnson extended the system throughout the federal government.

PPBS requires that departments and agencies define clearly the major objectives (or programs) which they choose to pursue, that they apply systematic analysis to the alternative ways in which these objectives are being - or may be - sought, and that they plan their spending in long-range as well as one-year-ahead terms. [10- 138]. PPBS utilizes operations research, systems analysis, and cost-benefit analysis to improve the decision making capabilities of the executive in formulating his budget.



In 1970 the Bureau's role in program evaluation was expanded and its name was changed to the Office of Management and Budget (OMB). [30- 11]. Today the Office of Management and Budget, like its predecessor, serves as a principal staff arm of the President.

Zero Base Budgeting (ZBB) is an emerging process which has been adopted by a variety of industries and was introduced to the Federal Government by President Carter in 1977. The 1979 budget was the first prepared using ZBB procedures. This system provides for a systematic, in-depth consideration of all programs and activities in conjunction with planning, budgeting and program evaluation, with little or no reference given to the policy precedents of past years.

## B. FUNCTIONAL CLASSIFICATIONS

The United States Government uses functional classifications for both budgetary and informational purposes. For the 1980 budget the expenditures were grouped into 16 functional categories according to the general purpose served. These areas were defined in terms of national needs, allowances, and undistributed offsetting receipts, which did not address specific needs but which were included to provide complete coverage of the entire budget.

The major functional categories in the United States budget are as follows:

### 1. National Defense

a. The national needs derived from these functional categories are:



- (1) Protect America's people, its institutions and its lands from foreign aggression.
- (2) Preserve an overall military balance at least as favorable as the present one between the United States and its allies, and the Soviet Union and its allies.
- (3) Promote peace and security through arms limitation, more stable relationships among countries, and negotiated settlements of disputes.

b. The major programs supporting these national needs in 1980 are:

- (1) Maintain sufficient strategic forces to make it clearly disadvantageous for the Soviet Union to initiate nuclear war.
- (2) Improve the initial capability of U.S. conventional forces defending NATO, in order to deter the Soviet Union or its Warsaw Pact allies from initiating conventional war.
- (3) Maintain sufficient capabilities to deter conflict worldwide, especially in such critical and potentially unstable areas as Northeast Asia, the Middle East and the Persian Gulf.
- (4) Modernize U.S. naval forces to maintain freedom of the seas and to protect the U.S. capability to conduct military operations wherever challenged.
- (5) Maintain reliable capabilities for monitoring foreign military activities and for verifying international agreements on arms control, including Strategic Arms Limitation Treaties.
- (6) Reform military pay to help attract and retain military personnel in the coming years, as the population of young people declines in numbers; and
- (7) Improve operating efficiency through reforms of the defense supply system, greater competition in the acquisition process, and better utilization of civilian personnel. [31- 27].

## 2. International Affairs

### a. National Needs

Promote a peaceful and stable world environment.



## b. Major Programs

- (1) Security Supporting Assistance Programs
- (2) Military Assistance Programs
- (3) International Financial Programs. [31- 29].

## 3. General Science, Space, and Technology

a. National Needs: To expand basic scientific knowledge, gain a better understanding of the earth and space through space exploration, and develop practical applications of space technology.

b. The major programs that meet these needs are only part of the federal government's support for research and development, most of which is found in other functional categories of the budget, such as energy, health, and defense. To help address this function, the federal government undertakes the following programs:

- (1) General Sciences and Basic Research
- (2) Space Flight
- (3) Space Science and Applications
- (4) Supporting Space Activities. [31- 31].

## 4. Energy

a. National Needs: To reduce dependence on foreign oil in the near term, prepare the U.S. economy to better withstand the effects of high energy prices, and develop renewable and essentially inexhaustible sources of energy for sustained economic growth through the next century.







b. The major programs supporting these needs are:

- (1) Energy Supply Program
- (2) Solar Energy Development Program
- (3) Fossil Energy Program
- (4) Nuclear Fusion Program

5. Natural Resources and Environment

a. National Needs: To protect public health by assuring a clean environment, to conserve and develop U.S. natural resources and improve understanding of them, and to preserve natural areas and historic sites.

b. The major programs supporting these needs are:

- (1) Water Resources
- (2) Conservation and Land Management
- (3) Recreational Resources
- (4) Pollution Control and Abatement
- (5) Other Natural Resources. [31- 36].

6. Agriculture

a. National Needs: To moderate the swings in the agricultural economy by supporting prices and by helping to create farmer-held commodity reserves to be used in years of short supply.

b. The major programs supporting these needs are:

- (1) Farm Income Stabilization
- (2) Agricultural Research and Services. [31- 38].

7. Commerce and Housing Credit

a. National Needs: To provide an adequate supply of mortgage and credit, special credit assistance for



economically distressed urban and rural areas, an effective postal service, and oversight of and assistance to business to encourage job creation and a sound economy.

b. The major programs supporting these needs are:

- (1) Mortgage Credit and Thrift Insurance
- (2) Postal Service
- (3) Other Advancement and Regulation of Commerce. [31- 40].

## 8. Transportation

a. National Needs: Development and maintenance of the nation's transportation system to meet the needs of commerce and the public; the safe, reliable, and efficient operation of that system; and the assurance that transportation programs help meet the nation's economic, energy, environmental and social goals.

b. The major programs supporting these needs are:

- (1) Ground Transportation
- (2) Air Transportation
- (3) Water Transportation
- (4) Other Transportation. [31- 42].

## 9. Community and Regional Development

a. National Needs: Promote the development and maintenance of economically and socially usable neighborhoods and rural areas; strengthen state, local and private sector capacity to revitalize distressed areas; and provide supplemental relief to areas that suffer natural disasters.



b. The major programs supporting these needs are:

- (1) Community Development
- (2) Area and Regional Development
- (3) Disaster Relief and Insurance. [31- 44].

10. Education

a. National Needs: To assist state and local governments in providing equal elementary and secondary educational opportunities for students of special concern to the federal government, particularly the disadvantaged and the handicapped; to assure that no one is denied access to higher education because of financial barriers and to promote the development and dissemination of knowledge concerning education theory and practice to assist individuals - especially the unemployed, disadvantaged, and disabled - in becoming self-sufficient.

b. The major programs supporting these needs are:

- (1) Elementary, Secondary, and Vocational Education
- (2) Higher Education
- (3) Research and General Education Aids
- (4) Training and Employment
- (5) Other Labor Services
- (6) Social Services. [31- 46].

11. Health

a. National Needs: To improve access to medical care and mental health services, expand efforts to promote health and prevent illness, and continue efforts to reduce inflation in health care costs.



b. The major programs supporting these needs are:

- (1) Health Care Services
- (2) Health Research
- (3) Education and Training of the Health Care Force
- (4) Consumer and Occupational Health and Safety. [31- 54].

12. Income Security

a. National Needs: To assure a reasonable income for poor Americans: insuring against loss of family income due to unemployment, retirement, disability, or death.

b. The major programs supporting these needs are:

- (1) Federal Retirement and Disability Insurance
- (2) Unemployment Compensation
- (3) Public Assistance, Housing Assistance, and Other Income Supplements. [31- 54].

13. Veterans Benefits and Service

a. National Needs: To meet the nation's obligations to compensate veterans disabled while in the service for their loss of earning power; to compensate families of veterans killed while in the service or dying from service related disabilities for their reduced earning power; to provide veterans with medical care for service related disabilities; to help veterans make the transition from military to civilian life; and to provide financial assistance to needy veterans and their families.

b. The major programs supporting these needs are:

- (1) Income Security for Veterans
- (2) Veterans Education, Training, and Rehabilitation





- (3) Hospital and Medical Care for Veterans
- (4) Veterans Housing
- (5) Other Veterans Benefits. [31- 57].

#### 14. Administration of Justice

a. National Needs: To protect the interest of the public in legal matters; the provision of fair and prompt prosecution and trial procedures; the maintenance of public order and the enforcement of federal statutes; the provision of detection and correctional facilities for those charged with or convicted of violating federal law.

b. The major programs supporting these needs are:

- (1) Federal Legislative and Judicial Activities
- (2) Federal Correctional Activities
- (3) Criminal Justice Assistance. [31- 59].

#### 15. General Government

a. National Needs: To provide for a legislative system that is responsible to the nation's people and the provision of effective and efficient central executive policy development and management.

b. The major programs supporting these needs are:

- (1) Legislative Functions
- (2) Executive Direction and Management
- (3) Central Fiscal Operations
- (4) General Property and Records Management
- (5) Central Personnel Management
- (6) Other General Government. [31- 60].



## 16. General Purpose Fiscal Assistance

a. National Needs: To support the federal system by sharing federal revenues with state and local jurisdictions and reducing the impact of economic fluctuations on states and localities.

b. The major programs supporting these needs are:

(1) General Revenue Sharing

(2) Other General Purpose Fiscal Assistance. [31- 64].

## 17. Interest

Interest is the cost of borrowing or the income from lending money. The interest function includes both interest paid and interest received by the federal government. [31- 63].

## 18. Allowances

Allowances cover a statutory pay increase for federal civilian agency employees and future initiatives and unforeseen requirements that may arise. [31- 64].

## 19. Undistributed Offsetting Receipts

Offsetting receipts are deducted from specific budget items; exceptions are made when such payments are extremely large and would mislead analysts with regard to federal program trends. [31- 64].

## C. THE FEDERAL BUDGET CYCLE

The budget sets forth the president's proposed financial plan of operation for the federal government for the upcoming fiscal year and planning ceilings for two subsequent fiscal years. In raising and spending tax revenues, the federal



government allocates resources between the private and public sectors of the economy. Within the public sector, the allocation of budget resources among individual programs reflects the priorities that are determined through the interaction of the President, the executive branch agencies and the Congress.

The budget cycle encompasses four identifiable phases: Executive Formulation and Transmittal, Congressional Action, Budget Execution and Control, Review and Audit.

1. Executive Formulation and Transmittal

The President's transmittal of budget proposals to the Congress is the result of many months of planning and analysis throughout the executive branch. Each spring, policy issues are identified, budget projections are made, and preliminary program plans are presented to the President. He then reviews the budget projections in the light of the economic outlook and establishes general budget and fiscal policy guidelines for the fiscal year that begins over a year later and, under the new multi-year budget planning system, for the two fiscal years beyond that. Tentative policy determinations for the budget year and multi-year planning ceilings for the following two years are then given to the agencies as guidelines for the preparation of their budgets.

In the summer, agencies formulate their zero-based budgets. These are reviewed in detail in the fall by the Office of Management and Budget and presented to the President in the context of overall fiscal policy issues. The budget



transmitted to Congress thus reflects the President's recommendations for existing and proposed programs, as well as total outlay and receipt levels appropriate to the state of the economy. Supplemental budget requests and amendments may be submitted later to cover unanticipated needs. [31- 65].

## 2. Congressional Action

Congress occupies a strategic constitutional position in the total budgetary system. Article I, section 8, of the Constitution gives Congress the specific power to lay and collect taxes, to borrow money on the credit of the United States and to coin money. Article I, section 9, clause 7, requires that "no money shall be drawn from the treasury but in consequence of appropriation made by law." The American constitution, by at once separating and blending the processes of legislation, administration, and adjudication, has introduced an element of indeterminateness to the functioning of the Federal Government. [21- 1].

The following outline lists the steps involved in the Congressional phase of the budget process.

a. The Presidential budget is sent to the Congress 15 days after Congress convenes in the new calendar year (e.g., January 20]. Presidents usually address Congress with a specific budget message.

b. By February 1, the Congressional Budget Office must send its annual report to the budget committees. This report analyzes the economy, the current services budget, and the President's budget. Alternative levels of spending are suggested.







c. By March 15, the Congressional committees (Legislative, Appropriation, Finance, and Ways and Means Committees) submit reports on budget estimates to the House and Senate Budget Committees.

d. By April 15, House and Senate Budget Committees report to each House the "First Concurrent Resolution" on the fiscal year (FY) ... budget setting forth a total level of budget outlays and new obligational authority.

e. By May 15, the House and Senate act on the "First Concurrent Resolution" and resolve differences in conference. Additionally, authorizing legislation, which is concerned with the merit of programs, is enacted. Finally, Congress begins floor action on individual spending bills.

f. By September 15, the House and Senate Budget Committees report to each house the "Second Concurrent Resolution," and direct the appropriate other Congressional committees to determine recommended changes in appropriation or revenue laws already passed to bring Congressional action in the FY budget into conformity with the "Second Concurrent Resolution."

g. Reconciliation of any House-Senate differences on the "Second Concurrent Resolution" (Congress may not adjourn until this action is completed).

h. The appropriation bill becomes law by Presidential signature or is overridden by veto.

i. October 1, new fiscal year begins. [22- 92].



### 3. Budget Execution and Control

Once approved, the budget becomes the financial plan for the operations of agencies during the fiscal year. By law, the Director of the Office of Management and Budget, through a system of apportionment, distributes appropriations and other budget authority to each agency by time period (usually quarterly).

The agencies may not obligate money in excess of amounts apportioned. The objective of the apportionment system is to distribute available budget authority in an effective and orderly manner.

The Budget Impoundment and Control Act of 1974 provides that the executive branch may regulate the rate of spending by deferring the availability or by proposing the recision of budget authority, subject to the approval of the Congress.

Deferrals, which are temporary withholdings of budget authority, cannot be extended beyond the end of the fiscal year, and may be overturned by either house of Congress at any time. Recisions, which permanently cancel existing budget authority, must be enacted by the full Congress. If Congress does not approve a proposed recision, the withheld funds must be made available for obligation. [31- 67].

### 4. Review and Audit

This is the final step in the budget process. The individual agencies are responsible for assuring that the obligations they incur and the resulting expenditures are



made in conformance with the authorizing and appropriating legislation. The Office of Management and Budget reviews programs and financial reports, and the General Accounting Office supervises how the agencies spend the funds appropriated by the Congress. [31- 68].



### III. PROGRAM BUDGETING IN THE U.S. NAVY

#### A. THE RESOURCE ALLOCATION PROCESS

##### 1. The DOD Budget Process

The Planning, Programming and Budgeting System (PPBS), often called Program Budgeting, is an integrated system for the establishment, maintenance and revision of the five-year defense plan and the DOD budget. PPBS emphasizes planning. The most important aspect of the system is its requirement for rigorous, measurable goal specifications and the evaluation of the output of alternative programs in relation to goal achievement. PPBS is a classical example of the attempts that have been made to make the organizational decision process more rational.

The U.S. Navy Programming Manual briefly summarizes the concept of the military PPBS as follows:

- Collect intelligence
- Appraise the threat
- Based on national policy, develop a strategy to meet the threat
- Devise force levels to support the strategy
- Program weapon systems, manpower and support over a period of time to attain required force levels
- Budget annual allocations of funds to procure the men and materials required to carry out programs. [26- I-1].

The idea behind PPBS is that decisions are to be made on the basis of programs or missions and their objectives and

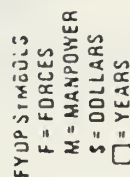




not on the basis of program inputs. PPBS is a response to the criticisms directed at military planning during the 1950s, that this planning ignored programs, missions and objectives. [7- 28]. Prior to PPBS the program management function within DOD and the services was basically exercised by financial managers. The principal instruments of the manager were the functional budget grouping and the appropriation. There was no means available whereby a plan or objective of a service could be assured continuity from year to year. Another problem was the difficulty of relating budgets to military missions and tasks. The former Secretary of Defense, Robert McNamara, made a significant contribution to the evolution of PPBS in the DOD. The McNamara approach to program budgeting was a planning/programming cycle which defined the forces and programs required by the national strategy. Once the need was quantified, the most cost-effective means of acquiring the posture was to be selected. The current style of PPBS is depicted in Exhibit 1 and is described in the remainder of this section on the DOD Budget Process.

The PPBS concept was developed and installed by Charles J. Hitch, an Assistant Secretary of Defense under McNamara. It was a revolutionary change, introducing the concept of programming as a bridge between the already well established functions of military planning and budgeting. [29- 52].



[illegible]

JSPD = JOINT STRATEGIC PLANNING DOCUMENT  
JPAM = JOINT PROGRAM ASSESSMENT MEMORANDUM

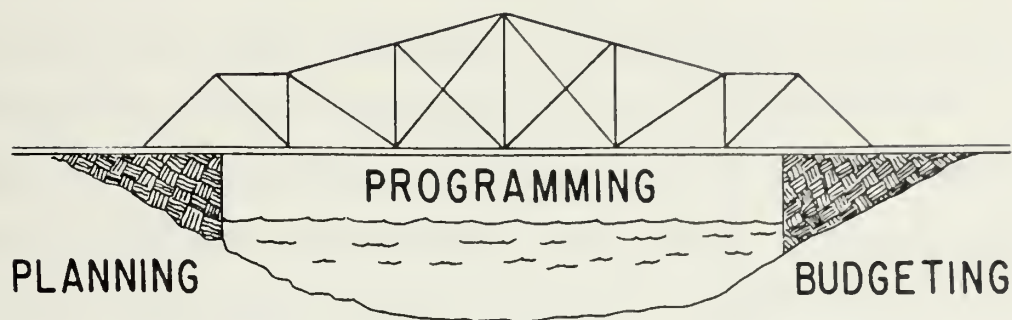
✓ R&C = REVIEW AND COMMENT

Source: Ref. 28

# Exhibit 1



## PROGRAMMING BRIDGES THE GAP



Planning, Programming and Budgeting.

### a. The Planning Phase

Planning is the first phase of PPBS. It determines military strategies and the forces necessary to achieve national security objectives. It includes an evaluation of alternative means of achieving specific goals. It decides upon objectives, on changes in these objectives, and on the policies that govern the acquisition, use and disposition of military resources. Planning is accomplished by the Joint Chiefs of Staff (JCS) in coordination with each military service, the Secretary of Defense and the OMB. The best way to describe the planning phase is to examine the principal documents used in its execution.

The first step in the planning phase is the JCS submission of the JSPD (Joint Strategic Planning Document), Volume 1, to the Secretary of Defense.



Preparation of the JSPD by the JCS starts in January and is completed in October. The JSPD replaced the former JFM (Joint Forces Memorandum) and Joint Strategic Objective Plan (JSOP) documents. It contains a concise, comprehensive military appraisal of the threat to U.S. interests and objectives, a statement of recommended military objectives derived from national objectives, and a description of the military strategy designed to meet these objectives. [20- 6]. The JCS views in this analysis are fiscally unconstrained. JSPD Volume II presents the JCS views on the planning of force levels in terms of what is to be accomplished and what the economic impact will be in terms of manpower resources, material availability, technology and industrial capacity.

After consideration is given to the military advice of the JCS, as expressed in the JSPD, the Secretary of Defense issues a Consolidated Guidance (CG) document. A draft of the CG covering the budget and program year is issued in January. It provides a vehicle for an exchange of views of defense policy among the Secretary of Defense, the President and the National Security Council.

The final version of the CG is issued in March. This culminates the planning phase. It provides definitive guidance, including fiscal constraints, for the development of the Program Objective Memoranda (POM) by the military departments and defense agencies. [20- 6].





## b. The Programming Phase

The most significant document used in the programming phase is the Program Objective Memorandum (POM). The U.S. Navy Programming Manual defines the POM as: "The document in which each military department and defense agency recommends and describes annually its total program objectives." [26- 111-1]. Program objectives are fiscally constrained. But, to allow sufficient flexibility for each service to develop balanced programs, reallocation of funds is permitted between major mission and support categories unless specifically stated otherwise in the fiscal guidance section of the CG.

The POM is prepared in accordance with the CG by the military departments and defense agencies and is submitted in May to the Secretary of Defense by each organization. By June the JCS submits the Joint Program Assessment Memorandum (JPAM) to the Secretary of Defense in which the POM is evaluated. Also at this time Issue Papers are generated by OSD: these contain analyses of the service proposals in relation to the CG, and the balances proposed between force structure, modernization, and readiness.

By July, the Secretary of Defense, in response to Issue Papers, develops Program Decision Memoranda (PDM) which are transmitted to the DOD components for review and comment as appropriate. The comments submitted by the components address the impact of the decisions on DOD program balance. Following a staff review of comments on the PDMs,



meetings are held by the Secretary of Defense to discuss major unresolved issues. If required, Amended Program Decision Memoranda (APDM) are then issued to incorporate any new decisions or to reiterate the previous decisions. [20- 8].

The result of this DOD programming process is the Five Year Defense Program (FYDP). The FYDP records, summarizes and displays the decisions that have been approved by the Secretary of Defense and constitutes the official DOD program. It is a management tool that keeps management informed of what is to be accomplished in the future to support national strategy decisions. The FYDP displays the manpower and dollar requirements for the approved programs for the current year plus the next five additional program years.

Force (ships and aircraft squadrons) authorizations are displayed in this manner and for three additional program years to include the current year plus eight program years. This display of manpower, dollars, and forces is categorized in terms of the following major programs:

1. Strategic forces
2. General purpose forces
3. Intelligence and communications
4. Airlift and sealift
5. Guard and reserve forces
6. Research and development
7. Central supply and maintenance
8. Training, medical and other personnel activities



9. Administration and associated activities
10. Support of other nations. [26- A-1].

All DOD activities are further grouped into Program Categories and Program Elements within each Major Program. Program Categories are groupings of agency programs (or activities or operations) which serve the same broad objective (or mission) or which have generally similar objectives. Program Elements are usually subdivisions of program sub-categories, such as forces, weapons and support systems with which mission programs are accomplished. There are over 1600 different program elements.

c. The Budgeting Phase

The budgeting phase constitutes the last of the three stages of the PPBS. This phase begins when the DOD components formulate and submit, by September 15, detailed budget estimates for the budget year portion of the approved five year program. The budget estimates include prior year, current year and budget year projections. Budget estimates are prepared and submitted based on economic assumptions related to pay and pricing policies. These assumptions are contained either in the PDMs or in separately prescribed detailed budget guidance documents which are revised and issued each year by the OSD. By October, OSD has conducted an analysis of the estimates. After the analysis is complete, the Secretary of Defense holds a series of budget hearings attended by the DOD components and representatives of the OJCS and the OMB. These hearings are used by the Secretary



of Defense to formulate his decisions on Decision Package Sets (DPS). A Decision Package is a brief justification document that includes the information necessary to make judgments on program or activity levels and resource requirements. A series of Decision Packages is prepared, for each decision unit, which cumulatively represents the total budget request for that unit.

By October, based on the Secretary of Defense's decisions, OSD has prepared and issued the annual series of DPS's. From October to December, summaries of any disagreements the OJCS and/or the DOD components may have had with the DPS's are provided as comments to the Secretary of Defense. Based on the various comments received, the Secretary of Defense makes final DPS decisions and has OSD prepare revised DPS's.

By December any unresolved Budget Issues remaining at that time have been discussed and resolved in a series of joint meetings attended by the Secretary of Defense, OJCS and DOD Component heads. Finally, after review and approval by the Secretary of Defense, the budget estimate is submitted to OMB for incorporation into the President's National Budget. [20- 10].

## 2. The Resource Management System (RMS)

As one of the several efforts he made to improve management at all levels in the DOD, Mr. McNamara asked Assistant Secretary of Defense (Comptroller) Dr. Robert Anthony to make major changes in the programming, budgeting







and accounting systems to ensure consistency and comparability among them. He also asked Dr. Anthony to develop a system for the management of inventory and capital acquisitions and a top management reporting system, in addition to improving management education and motivation so that the new systems would be put to effective use.

These efforts culminated in the Resource Management System (RMS). RMS is defined in the Manual of Financial Management in the Navy as: "... a series of systems designed to promote better management throughout the DOD by providing managers with improved means of obtaining and controlling the resources required to accomplish missions." [29- 40].

The objectives of this system are:

- To provide managers at all levels within the DOD with information that will assist them in assuring that resources are obtained and used effectively and efficiently in the accomplishment of DOD objectives.
- To provide information that is useful in the formulation of objectives and plans.
- To provide data to support program proposals and requests for funds.
- To provide a means of assuring that statutes, agreements with congressional committees and other requirements relating to resources are complied with. [27- 1].

RMS consists of four interrelated subsystems:

a. Programming and Budgeting will:

(1) Be correlated as fully as possible with each other and with management accounting systems, using common data elements and definitions, translatable structures and nonduplicative procedures and schedules.



(2) Be organized so as to focus on the goals, purpose, and output of the DOD, and on the costs of achieving those goals.

b. Management of Resources for Operating Units will:

(1) Focus on output and on resources used, i.e., expenses and obligations including reimbursable work and unfilled order amounts.

(2) Focus on managers who are responsible for effective and efficient use of resources.

(3) Focus on actual performance in relation to planned performance.

(4) Use expense operating budgets and accounting as primary aids in management control at each organizational level.

(5) Use working capital to hold resources in suspense, in both time and place, between the acquisition of resources and their consumption.

This subsystem involves the Operations and Maintenance and Military Personnel appropriations. To improve the management of these resources the Navy and the Marine Corps implemented PROJECT PRIME (Priority Management Effort) under which such uniform concepts were initiated as:

- Accrual accounting, by which an activity is charged for resources at the time they are consumed.
- Total costing of an activity, whereby all costs of an activity are managed, including such diversified costs as military personnel and minor construction.
- The provision that work units may be assigned to the smallest increments of an activity. These work units become part of the annual budget and are reported monthly by the performing offices.



c. Management of Inventory and Similar Assets will:

- (1) Measure available inventory, in readiness terms, against approved requirements.
- (2) Be capable of summary aggregations to meet the needs of all management levels.
- (3) Maximize the capability to use common stores of inventory for all DOD purposes and consumers.

d. Management of Acquisition, Use and Disposition of Capital Assets will:

- (1) Focus on the item (or item component) being acquired, both its planned and actual quality, time schedule, and cost.
- (2) Include special information subsystems applicable to acquisitions of selected major capital items.
- (3) Be standardized and controlled, to the extent practicable, so as to minimize the data gathering and reporting workload imposed on contractors and in-house facilities.
- (4) Be structured so as to minimize changes required to be compatible with accounting systems used by contractors.

RMS is oriented to the needs of management, but it also must provide information required by the Congress, OMB, Department of Treasury and by other government agencies.  
[29- 44].



## B. BUDGET FORMULATION

### 1. The Comptroller's Role

The Department of the Navy Programming Manual describes a budget as: "A planned program for a fiscal period in terms of: (a) estimated costs, obligations, and expenditures, (b) source of funds for financing, including reimbursements anticipated, and other resources to be applied, and (c) history and workload data on projected programs and activities." [26- 4B-2].

Within the framework of this definition the comptroller plays an important role, because he guides the budget process; furthermore, it is incumbent upon the comptroller to ensure that others involved in the budgeting process - from the commanding officer down - are aware that the function of the budget is more important and complicated than merely presenting a plan distributing dollars.

The budget is a means of two-way communication and, for it to be most effective in this role, budget preparation must begin at the lower levels of responsibility within the activity. Planning and guidance should come from the top down: the budget from the bottom up. This requires an interactive process with built-in feedback loops.

The comptroller organization is normally a staff department which provides a vital service to the commanding officer and the line and other staff departments. The comptroller drafts budget documents for the commanding officer to assist him in carrying out his policies and





assigning priorities. The comptroller and his staff are the resident experts and advisors in budget preparation and execution. They have the responsibility to educate and assist in budget matters through both formal and ad hoc means and must therefore be accessible to those charged with planning and task accomplishment. [28- C-3].

The comptroller is deeply involved in any commitment of resources, and when more than one alternative exists, as is usually the case, he must perform or require an economic analysis. The comptroller provides guidance in the methods of analysis and reviews the analyses of others.

Fundamental techniques used in economic analysis within DOD are discussed in the next section.

## 2. Economic Analysis

During the programming phase, programs are developed to provide, on an orderly basis, ships, aircraft, weapons systems and manpower over a period of time, with due consideration to the total cost to the nation. A good decision is made by selecting the most cost-effective alternative. To evaluate alternatives, an economic analysis should be made.

F. S. Quade defines system analysis as "A systematic approach to helping a decision maker choose a course of action by investigating his full problem, searching out objectives and comparing them in the light of their consequences, using an appropriate framework - insofar as possible analytic - to bring expert judgment and intuition to bear on the problem." [16- 2].



The analyst group and planning staff should be close to the top of the organizational hierarchy. Recommendations made by the analyst group should be presented in such a way that management has alternative choices and does not, in effect, simply approve decisions made by the staff.

The Economic Analysis Handbook of the DOD describes the elements of the process as:

- Establishing and defining the goal and objective desired.
- Searching out hypothetical alternatives for accomplishing the objectives.
- Formulating appropriate assumptions.
- Determining the cost (input) and benefits (outputs) of each alternative.
- Comparing costs and benefits of all alternatives and ranking the alternatives.
- Testing the sensitivity of major uncertainties on the outcome of the analysis.
- Decisions. [8- 2].

### 3. Budget Preparation

Department of the Navy budget estimates are originated at the activity level. Activities prepare budget estimates and supporting documentation and submit them to the sub-claimant, who reviews and compiles them. They are then forwarded to the major claimant, who reviews and compiles and forwards them to the CNO for inclusion in the Navy budget.

#### a. Budget and Apportionment Call

After the development of the POM, the Comptroller of the Navy issues a call for budget estimates, through the major claimants, to field activity comptrollers. This call



specifies the budget schedule that is to be followed. Certain dates in the schedule are established by law, as, for example, the beginning and the end of a fiscal year and the time for the President's submission of the budget to the Congress.

The Secretary of Defense establishes the date for submission of budget estimates to his office and usually provides further important decision milestones prior to the date of the OMB submission and printing. The budget call goes out from the claimant in May or June of each year for the budget year under consideration. Additionally, a separate apportionment call may be issued a few months prior to the apportionment year which includes a request for data from the past, current and next fiscal years. Apportionment is the distribution of funds from the appropriations bill after it has been passed. The apportionment year is really of more immediate interest to the field activity comptroller than the budget year, as it is the approval of the apportionment budget which constitutes the next year's station operating budget.

The operating budget is prepared at the responsibility center for submission to the sub-claimant for the current fiscal year.

As a practical matter, the major claimant may issue a combined apportionment/budget call which includes all of the fiscal years mentioned above. [28- C-21].

The responsibility center is also provided, usually by message shortly after budget call, with annual



planning figures, called control numbers, for the apportionment year. These are stated in terms of dollars for activity operations and numbers of civilian and military personnel. The control numbers indicate maximum dollars and personnel end strengths which cannot be exceeded in the budget submission.

Those programs and functions which cannot be performed within the constraints of the control numbers become unfunded requirements. Careful preparation of unfunded requirement requests is one of, if not the most, important parts of budget preparation. Unfunded requirement requests should have full justification.

The chief characteristics of unfunded requirement lists are that they must:

- Detail the impact on the command's mission if the function is not performed.
- Prioritize requirements by importance and cost.
- Be maintained with current priorities and costs, and not developed just once each year at budget time.  
[28- C-24].

#### C. BUDGET EXECUTION AND CONTROL

Budget execution is the accomplishment of a plan. It is the process established to achieve the most effective, efficient, and economical use of financial resources in carrying out the program for which the funds were approved. It begins before the start of the fiscal year.







## 1. Flow of Funding Authority

Prior to RMS, staff units (called bureaus) controlled the flow of funds to operational units under the control of the Chief of Naval Operations. Since funding did not flow down the chain of command, operational commanders did not have the ability to allocate resources so that their subordinates could perform their assigned missions.

Further, if funds were received from several separate sources (bureaus) rather than through the chain of command, the head of an operating organization was inhibited from making good decisions on the best use of operating resources because the separate funds were usually "fenced."

According to Robert Anthony,

The flow of funding authority within an organization should generally follow the lines of operating management responsibility; that is, funds should be authorized from higher levels to lower levels according to the formal organizational hierarchy. Difficulties arise when funds are received from sources other than clients or higher authority in the organization hierarchy. [1- 284].

If the next senior in command does not control the distribution of spending authority, he often cannot exercise appropriate control over his subordinate elements because he does not have the power of purse. Anthony also pointed out, "If funds are received from staff agencies rather than through the line organization, the staff units tend to have an undue influence on operating management." [1- 284].

These concepts make sense because it is obvious that the superior in the chain of command who assigns the mission must also be responsible for the resources necessary to carry



out the mission. The concept of channeling funds (along the same chain) starts after the Congress issues New Obligation Authority (NOA). Funds flow down through the Secretary of Defense to the Secretary of the Navy. The actual allocation of funds is accomplished by the Assistant Secretary of the Navy for Financial Management (ASN,FM), who is the Comptroller of the Navy. He allocates the funds to three main, responsible offices - the Commandant of Marine Corps, the Chief of Naval Operations, and the Assistant Secretary of the Navy for Research and Development (ASN,R&D).

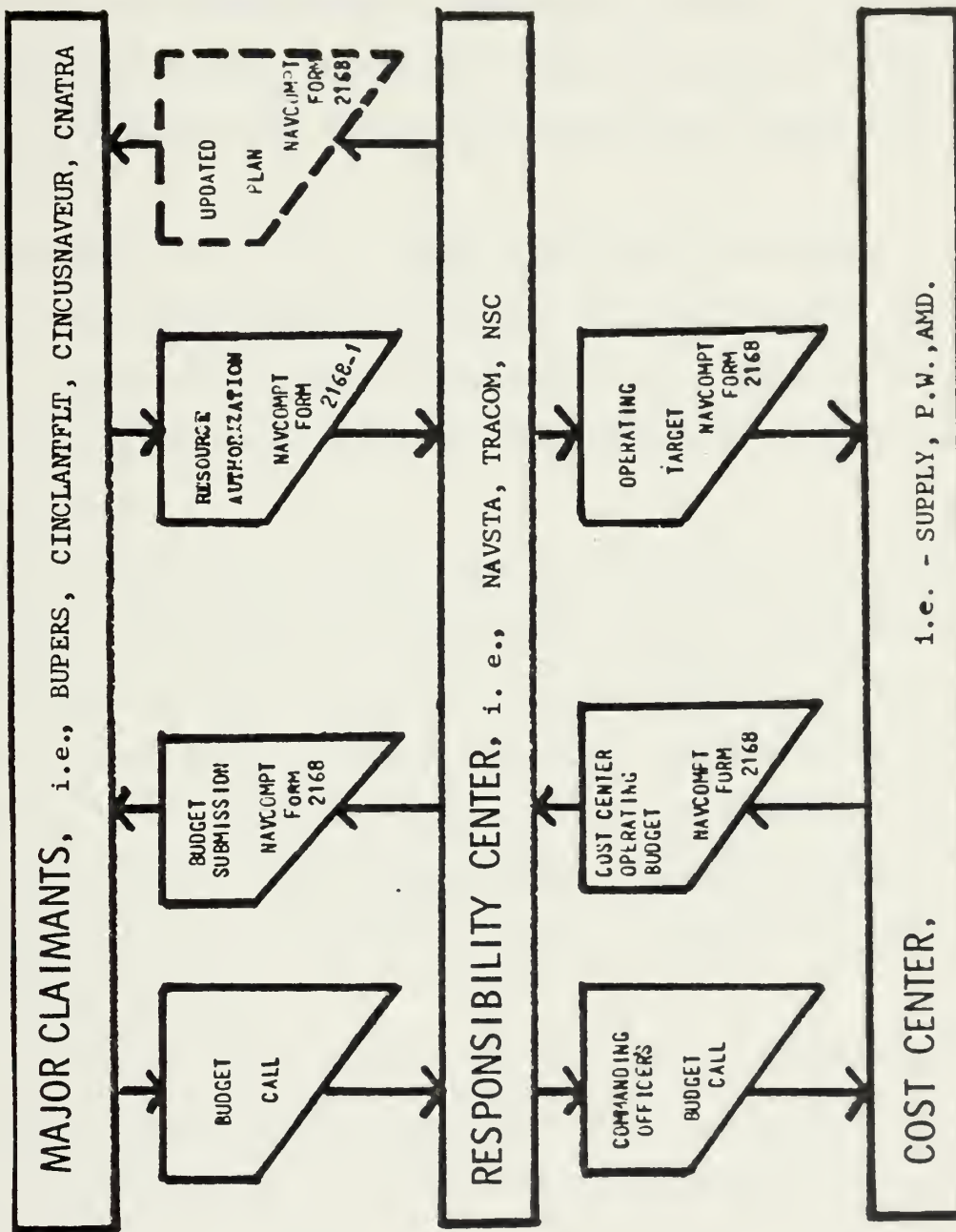
Under the RMS the CNO then reallocates funds to subordinates. This reallocation is actually done by CNO's comptroller, the Director of the Fiscal Management Division (OP-92). Operation and maintenance funds are reallocated to the major claimant who issues an operating budget to his field activity, e.g., the Naval Postgraduate School. The field activity is the responsibility center and is called an operating budget holder. Upon receipt of the operating budget the responsibility center reallocates it in the form of operating targets among its cost center, e.g., Public Works Office (PWO). [See Exhibit 2].

## 2. RMS Accounting and Reporting

One result of Project PRIME was that the accounting responsibility for the program structure of the PPBS was passed to the field. As a requirement of RMS the activity has to account for the operations and maintenance



# BUDGET FLOW



Source: Ref. 27

Exhibit 2





appropriation and for the statistical costing of military personnel expense.

The accounting system of the Navy is a complete cycle, with the respective headquarters components (offices, bureaus and commands) maintaining control of funds allocated to them in order to accomplish the purposes for which the funds were appropriated.

Reporting is a form of responsibility accounting. RMS requires the submission of a series of reports which are utilized at the various levels of management. Financial reports submitted provide the data for appropriation allocation accounting records.

In the interests of using the best qualified personnel and of economy, accounting operations for smaller activities are furnished by the major activity that furnishes logistic and supply support to the smaller activity. Consequently, the accounting for a shore activity normally is performed by a fiscal office that is an organizational component either of the same activity or of another activity designed to provide accounting services.

In the case of the latter, insofar as the accounting relationship is concerned, the activity that is assigned the accounting responsibility is called the Authorization Accounting Activity (AAA) and the activity for which the accounting is being performed is called the Dependent Activity.

The following RMS reports are required and are prepared monthly by the AAA:





- Operating Budget/Expense Report (NAVCOMPT Form 2168)

There are two operating budget expense reports, one for the cost center and one for the responsibility center. These are monthly reports that compare budgeted and actual expenses to date (e.g., Where do we stand? How much is it costing us?) at the detailed cost account level. [See Exhibits 3, 4].

- Performance Statement (NAVCOMPT Form 2169)

The performance report is a monthly report prepared for the cost and responsibility center. It shows actual expenses to date by purpose and type of cost at detailed cost account levels. [See Exhibit 5].

- Budget Classification/Functional Category/Expense Element Report (NAVCOMPT Form 2171)

The BC/FC/EE Report is prepared monthly for each operating budget holder. Data are presented in budget terms by gross adjusted obligations and expenses incurred during the month showing budget classification, functional/sub-functional category and expense element within one appropriation subhead. The job order accounting system or other locally designated method of documentation is the data source. The intent of the report is to provide input for the collection of cost information at the departmental level. [See Exhibit 6].

- Military Service Report (NAVCOMPT Form 2162)

The purpose of this report is to permit analysis of the utilization of funds rather than to control the use of



# OPERATING BUDGET/EXPENSE REPORT

INTERNAL SUBMISSION

TO		COMPLAINING OFFICER		REPORT		FOR PERIOD ENDING	
CONTROLLER				<input checked="" type="checkbox"/> DETAIL <input type="checkbox"/> SUMMARY		30 JUNE 1974	
BUDGET FOR		BUDGET CENTER		REPORTING FISCAL OFFICER (Signature, rank and date of submission)			
CONTROLLER DEPT.		179160A, 2320		CONTROLLER			

FUNC/ SUB- FUNC. CAT.	COST ACCOUNT	DESCRIPTION	MAN-HOURS		MILITARY SERVICES	CIVILIAN LABOR	MATERIAL AND SUPPLIES	COMMERCIAL CONTRACTS	OTHER	TOTAL EXPENSES
			MILITARY	CIVILIAN						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
D1	1C10	Administration	1,300	1,450	7,200	11,500	1,500	9,000		29,200
D1	1C20	Internal Review	200	750	800	5,000	500			6,300
D1	1C30	Budget and Statistics	1,000	6,000	6,000	41,000	2,000			49,000
D1	1C40	Accounting	6,100	16,000	28,000	62,500	2,000			92,500
D1	1C50	Payroll	8,000	18,000	41,000	91,000	4,000			136,000
D1	1C10	Military Absence	1,000		5,000					5,000
		Subtotal "D1"	17,600	42,200	88,000	211,000	10,000	9,000		318,000
D2	1C20	Internal Review		800		4,000				4,000
		Subtotal "D2"		800		4,000				4,000
		Total "D"	17,600	43,000	88,000	215,000	10,000	9,000		322,000

Source: Ref. 29

Exhibit 3



OPERATING BUDGET/EXPENSE REPORT

EXTERNAL SUBMISSION

TO		BUDGET		REPORT		FOR PERIOD ENDING				
U. S. Naval Activity Washington, D. C. 20390 UIC 66212		NAVSUP/STECOM		<input checked="" type="checkbox"/> RETAIL <input type="checkbox"/> WHOLESALE <input type="checkbox"/> RETAIL <input type="checkbox"/> WHOLESALE		30 June 1974				
BUDGET CENTER		APPROPRIATION DATA		COST CENTER		REPORTING FISCAL OFFICER (Signature, rank and date of submission)				
U. S. Naval Activity Washington, D. C. 20390 UIC 66212		1791001.2320								
FUNC. SUB. CAT.	DESCRIPTION	WORK UNITS	MILITARY	CIVILIAN	MILITARY SERVICES	CIVILIAN LABOR	MATERIAL AND SUPPLIES	COMMERCIAL CONTRACTS	OTHER	TOTAL EXPENSES
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
D1	Administration	3,069	1,300	1,450	7,200	11,500	1,500	9,000		29,200
D1	Internal Review	27	200	750	800	5,000	500			6,300
D1	Budget and Statistics		1,000	6,000	6,000	41,000	2,000			49,000
D1	Accounting	5,800	6,100	16,000	28,000	62,500	2,000			92,500
D1	Payroll	6,825	8,000	18,000	41,000	91,000	4,000			136,000
D1	Military Absence		1,000		5,000					5,000
	Subtotal "D1"		17,600	42,200	86,000	211,000	10,000	9,000		318,000
D2	Internal Review			800		4,000				4,000
	Subtotal "D2"			800		4,000				4,000
	Total "D"		17,600	43,000	86,000	215,000	10,000	9,000		322,000
M1	Steam and Hot Water	4,280	1,700	3,250	8,000	42,000	12,000	980		62,980
M1	Purchased Electricity	1,642	700	2,020	4,000	19,000	6,000	2,020		2,020
M1	Electricity, Distribution Systems	2,320		3,500	4,000			2,000		31,000
	Subtotal "M1"		2,400	8,570	12,000	61,000	18,000	5,000		96,000
M2	Electricity, Distribution Systems								2,000	2,000
	Subtotal "M2"								2,000	2,000
	Total "M"		2,400	8,570	12,000	61,000	18,000	5,000	2,000	98,000
	Total Operating Expenses		20,000	51,570	100,000	276,000	28,000	14,000	2,000	420,000
	Less: Anticipated Reimbursables									6,000
	Total Direct Expenses									414,000
	Change in Unfilled Orders									1,000
	Total Direct Operating Budget									415,000
	Memo Entries:									
	(1) Military Services Authority									100,000
	(2) New Obligations Authority									315,000

Source: Ref. 29

Exhibit 4





# PERFORMANCE STATEMENT

FROM		TO		APPROPRIATION DATA		FOR PERIOD ENDING					
U. S. Naval Activity Washington, D. C. UIC 66212		Naval Material Command Support Activity (Code 1228) Washington, D. C. 20360		1731894.2320		31 July 1972					
BUDGET FOR		BUDGET GRANTOR		COST CENTER		REPORTING FISCAL OFFICER (Signature and Date)					
U. S. Naval Activity Washington, D. C. UIC 66212		Chief of Naval Operations		Responsibility Center		DATE OF SUBMISSION					
						15 Aug 1972					
BUDGET CLASSIFICATION				EXPENSES				WORK UNITS			
SUB. MET. PER.	FUNC. SUBFUNC. CAT.	COST ACCOUNT	DESCRIPTION	ACTUAL	ANNUAL BUDGET	NORM % TO BUDGET	ACTUAL	ANNUAL BUDGET	NORM % TO BUDGET	ACTUAL UNIT COST	STANDARD UNIT COST
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
F3	D1	1A10	Command and Staff	\$37,996	\$455,952	8	60	720	8	\$633.26	\$633.26
F3	D1	1A00		37,996	455,952	8	60	720	8	---	---
F3	D1	1RH0	Leave, Annual and Sick	1,000	---	---	---	---	---	---	---
F3	D1	1RP0	Leave Acceleration	-(3,871)	---	---	---	---	---	---	---
F3	D1	1R00		-(2,871)	---	---	---	---	---	---	---
F3	DZ	1A10	Command and Staff	250	3,000	8	1	12	8	250.00	250.00
F3	DZ	1A00		250	3,000	8	1	12	8	---	---
F3	DZ	1H40	Keypunch	100	1,200	8	1	12	8	100.00	100.00
F3	DZ	1H50	Clerical	200	2,400	8	2	24	8	100.00	100.00
F3	OZ	1H00		300	3,600	8	3	36	8	---	---
F3	D1	0000	Subtotal D1	35,125	---	---	---	---	---	---	---
F3	DZ	0000	Subtotal DZ	550	---	---	---	---	---	---	---
F3	DZ	0000	Subtotal D	35,675	---	---	---	---	---	---	---
F4	M1	7110	Training	2,000	24,000	8	20	240	8	100.00	100.00
F4	M1	7100		2,000	24,000	8	---	---	---	---	---
F4	M1	0000	Subtotal M1	2,000	---	---	---	---	---	---	---
F4	M1	0000	Total M	2,000	---	---	---	---	---	---	---
F4	0000	0000	Responsibility Center	---	---	---	---	---	---	---	---
			Total	\$37,675	---	---	---	---	---	---	---

Source: Ref. 29

Exhibit 5





## BUDGET CLASSIFICATION/FUNCTIONAL CATEGORY/EXPENSE ELEMENT REPORT

APPROPRIATION DATA 1731804.2320		FOR PERIOD ENDED 31 July 1972		DB IDENTIFICATION: 66212	
FROM: U. S. Naval Activity Washington, D. C. UIC 66212		TO: Naval Material Command Support Activity (Code 1228) Washington, D. C. 20360		DB APPROVED FOR: 66212	
				CHARGEABLE UNIT IDENTIFICATION CODE: 66212	

CODE		EXPENSES		GROSS ADJUSTED OBLIGATIONS	
		CURRENT MONTH	F.Y.T.D.	CURRENT MONTH	F.Y.T.D.
F3D1A		10,000.00	10,000.00	---	---
F3D1Q		---	---	9,400.00	9,400.00
F3D1T		1,925.00	1,925.00	1,675.00	1,675.00
F3D1U		23,200.00	23,200.00	23,200.00	23,200.00
F3D1	SUBTOTAL	35,125.00	35,125.00	34,275.00	34,275.00
F3DZT		250.00	250.00	275.00	275.00
F3DZU		300.00	300.00	300.00	300.00
F3DZ	SUBTOTAL	550.00	550.00	575.00	575.00
F3D A		10,000.00	10,000.00	---	---
F3D Q		---	---	9,400.00	9,400.00
F3D T		2,175.00	2,175.00	1,950.00	1,950.00
F3D U		23,500.00	23,500.00	23,500.00	23,500.00
F3D	SUBTOTAL	35,675.00	35,675.00	34,850.00	34,850.00
F3 A		10,000.00	10,000.00	---	---
F3 Q		---	---	9,400.00	9,400.00
F3 T		2,175.00	2,175.00	1,950.00	1,950.00
F3 U		23,500.00	23,500.00	23,500.00	23,500.00
F3	TOTAL	35,675.00	35,675.00	34,850.00	34,850.00
F4M1T		1,500.00	1,500.00	1,500.00	1,500.00
F4M1U		500.00	500.00	500.00	500.00
F4M1	SUBTOTAL	2,000.00	2,000.00	2,000.00	2,000.00
F4M T		1,500.00	1,500.00	1,500.00	1,500.00
F4M U		500.00	500.00	500.00	500.00
F4M	SUBTOTAL	2,000.00	2,000.00	2,000.00	2,000.00
F4 T		1,500.00	1,500.00	1,500.00	1,500.00
F4 U		500.00	500.00	500.00	500.00
F4	TOTAL	2,000.00	2,000.00	2,000.00	2,000.00
GRAND TOTAL		37,675.00	37,675.00	36,850.00	36,850.00

\*For month of July use fiscal year to date column only.

Source: Ref. 29

Exhibit 6



military personnel. The total dollar amount reported is used as the control total in the military service applied section of the Operating Budget Financial Report. The report shows the onboard strength of officer and enlisted personnel as of the first day of the month, costing those personnel at the NAVCOMPT Manual's standard. [See Exhibit 7].



# MILITARY SERVICE REPORT

FROM U. S. NAVAL ACTIVITY WASHINGTON, D. C. 66212		TO U. S. NAVAL ACTIVITY WASHINGTON, D. C. 66212		OR IDENTIFICATION 66212		FOR MONTH OF July 1972	
				REPORTING FISCAL OFFICE (Signature and date)			
				APPROPRIATION DATA 1731804.2320		DATE OF SUBMISSION July 1972	

BRANCH OF SERVICE	OFFICERS			ENLISTED			TOTALS			REMARKS
	CURRENT MONTH	MILITARY PERSONNEL COST	CUMULATIVE COST TO DATE	CURRENT MONTH	MILITARY PERSONNEL COST	CUMULATIVE COST TO DATE	CURRENT MONTH	MILITARY PERSONNEL COST	CUMULATIVE COST TO DATE	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
NAVY	5	2,500	2,500	25	7,500	7,500	30	10,000	10,000	none
MARINE CORPS										
*1/ARMY										
*1/AIR FORCE										
TOTALS	5	2,500	2,500	25	7,500	7,500	30	10,000	10,000	none
* FOOTNOTE: SPN LINES INCLUDED	none			none						

Source: Ref. 29

Exhibit 7



#### IV. THE BUDGET IN THE VENEZUELAN GOVERNMENT

##### A. AN INTRODUCTION TO VENEZUELA

###### 1. Political History

Discovered by Columbus on his third voyage in 1498, Venezuela was one of the first South American colonies to revolt against Spain in 1810. However, it was not until 1821 that independence was achieved under the leadership of Simon Bolivar, Venezuela's native son and national hero. Venezuela was part of the Greater Colombian Federation until 1830 when it adopted a constitution of its own.

Venezuela's independent existence has been characterized by frequent periods of political instability, dictatorships and revolts. The nation's modern era began in 1935 after the death of General Juan Vicente Gomez, who had exercised an autocratic, almost feudal rule for 27 years. [11- 7].

General Eleazar Lopez Contreras assumed office on the death of Gomez, and the Gomez Congress elected him President in early 1936. Coming to power as the Gomez War Minister, he dismantled the Gomez regime.

General Isaias Medina Angarita became President in 1941 upon nomination by his predecessor and ratification by Congress. He recognized political parties including Accion Democratica (AD), Democratic Action, which was to become the fountainhead of nearly all parties. Medina emptied the jails, recalled the exiles, eliminated press censorship, and





introduced reforms in agriculture, social security and education. In 1942 he promulgated the Progressive Income Tax Law, and his Hydrocarbon Law of 1943 became the framework for future petroleum policy.

The AD was the major political party in opposition to Medina and, by 1945, it was eager for power. After the collapse of a plan for cooperation between the AD and the Medina government in the selection of Medina's successor, the AD joined with disaffected young military officers in ousting Medina before his term ended. The AD justified its actions by arguing that Medina's successor would delay democracy indefinitely. Despite military participation in the takeover, civilians dominated the Junta and Romulo Betancourt of the AD became the interim President.

Political and economic reforms came tumbling out of Miraflores Palace. The new government wanted to change everything at once. The Junta called for popular elections of the President and Congress. New parties sprang up and labor unions organized. In the first free elections in Venezuelan history, Romulo Gallegos, novelist and educator and head of the AD party, was elected President in February, 1948.

In mid-November 1948 the government of President Gallegos was overthrown and a military Junta ruled until late 1952, when General Marcos Perez Jimenez, the dominant member of the Junta, was designated President.

After 10 years of military dictatorship, the armed forces, with overwhelming popular support, on January 23,



1958, deposed the Perez Jimenez Government and formed a Junta of Government composed of three military officers and two civilians. The Junta promptly announced that its primary objective was to establish a lawful and honest democratic regime under which individual liberties would be guaranteed. In the first hours of its existence the provisional government restored civil liberties, removed censorship, released political prisoners and invited exiles to return. The Junta moved quickly to establish procedures for democratic elections. The elections were held on December 7, 1958, and on February 13, 1959, Romulo Betancourt (AD) was inaugurated as President of the Republic. He was the first democratically elected President to complete his term of office and the first in a series of democratically elected Presidents. The nation had entered a new era.

In 1964, Raul Leoni (AD) was elected President and continued the policies of Betancourt, introducing new reforms. Congress increased its participation in political decision making. In 1969, Venezuela registered another first: Rafael Caldera of the principal opposition party, the Komite de Organizasion Politica Electoral Independiente (COPEI), won the election and became President.

The successful change of the party controlling the government helped to consolidate the democracy. In December 1973, the nation chose its fourth popularly elected President. AD regained control of the presidency when its candidate, Carlos Andre Perez, defeated 12 other presidential candidates,



but in December, 1978 COPEI again won the election and Luis Herrera Campins became President. In twenty years Venezuelan politics had changed from an uncertain experiment in representative government to a robust two-party democracy with accepted norms of conduct. [2- 44].

## 2. Government Structure

The country is divided into 20 states, a federal district, two federal territories and 72 islands in the Caribbean Sea. The national government is highly centralized and is composed of separate executive, legislative and judicial branches. Venezuela has a written Constitution; the last one was promulgated in 1961 and is the twenty-fifth in line since independence. The new Constitution aspires to guarantee continued popular democracy, direct elections, checks and balances among the branches of government and specifications of responsibilities.

The executive branch of the government is headed by the President, who must be a Venezuelan by birth, at least thirty years of age, and not a member of the clergy. Elected by a plurality vote through direct and universal suffrage, the President serves a five-year term and may not be reelected until after two additional terms have passed. Ex-presidents automatically become members of the Senate. There is no Vice-President. In case of vacancy, the President of the Congress acts as chief executive until a new President can be selected by the Congress.





The President directs all foreign affairs and is Commander-in-Chief of the Armed Forces. He is assisted in his executive duties by the Council of Ministers which serves as a cabinet. The size of this council has varied since 1958; in mid-1976 it had twenty members - eighteen Ministers, the Governor of the Federal District, and the Secretary General of the Presidency. Members of the Council of Ministers serve as a body to advise the President and as individuals to direct the operations of the department assigned to them. They are appointed and removed by the President to whom they are responsible. [2- 55].

The Venezuelan Congress is structured in the same manner as the United States Congress. It is a bicameral body consisting of the Senate and the Chamber of Deputies. The Senators and the Deputies are elected by direct and universal suffrage for five-year terms. Two Senators are elected from each state and two from the Federal District. There are three additional senators who serve for life - the ex-presidents - Betancourt, Caldera and Perez.

The major functions of the Congress are to consider, debate, approve, reject, or alter legislation and to oversee the executive branch and its agencies. Most important legislation is not initiated by the Congress, however, but by the executive branch. The budget is the best example of executive-initiated legislation.

Much of the work of the Congress is accomplished through committees. Originally each chamber had the same





ten permanent standing committees. Two committees in each chamber deal with internal affairs and foreign relations, four committees deal with economic matters, and the other four deal with service matters, such as education, tourism, and defense. The most important committee is the Delegated Committee, which is an interim committee created by the Constitution composed of the President and Vice-President of Congress and twenty-one other members selected on the basis of party representation in Congress. This Committee serves during periods when the Congress is adjourned and acts for the Congress in its relations with the executive branch. During such times, the Delegated Committee may even convene Congress in extraordinary session if necessary. [4- 181].

## B. THE BUDGET AND MODERN GOVERNMENT

### 1. Development of Budgeting in Venezuela

In early 1960, the government introduced Budgeting by Program in an effort to improve the efficiency of government operations. Since then the budget has specified tasks for each government unit or category of expenditure. Venezuela was one of the first countries in Latin America to install Budgeting by Program. While it has not revolutionized public spending, it has improved somewhat the allocation process.

When Budgeting by Program was first instituted, government agencies submitted their budget estimates to the Ministerio de Hacienda - Ministry of Finance - who compiled the budget. At this time the budget estimates usually



exceeded the resource ceiling determined by the Minister of Finance. Formally, the Minister's job consisted solely of soliciting the different agencies, and adjusting their budget proposals to the amounts approved in prior budgets or to amounts determined by the Council of Ministers. In the middle 1960s these adjustments were uniform percentage increases/decreases for all agencies. These procedures were arbitrary in nature.

After 1960 the government began to take interest in the planning process, because it permitted coordination between political trends and the allocation of public resources; this process was not optimum but it represented an improvement over the former system. [18- 32].

In 1962 another improvement which was implemented was the use of the "Clasificador de Partidas Segun Objeto de Gasto" (Classification of Entry by Object of Spending), following a model proposed by the United Nations.

Until 1965 the Venezuela budget process was guided by the 1925 Law of the Budget. In 1965 the Minister of Finance developed a proposal to update this law, but the proposal died in conference.

In 1974, as the result of a new government policy and the growth of revenues from the increase in oil prices by OPEC, the Minister of Finance developed a second proposal to revise the Law of the Budget. This revision was approved on July 19, 1976. On July 30 of the same year, the 1976 "Ley Organica del Regimen Presupuestario" (the Organic



Law of the Budget Procedure) was enacted, superseding the 1925 Act. [2- 1].

## 2. The Meaning of the New Budgetary Reform

After the Organic Law of the Budget Procedure was enacted, a reform of the budget process began, first in the central government, then later in the autonomous institutions, states and municipalities.

According to the Minister of Finance, flexibility and control are the principles upon which budgetary reform rests. These principles are contradictory and hard to conciliate. Seeking probity, budget officers overcontrol the budgetary process, which results in decreased administrative efficiency.

The principle of flexibility seeks:

- Better use of resources toward the accomplishment of objectives and goals.
- Reallocation of idle financial resources.
- Reallocation of human and natural resources for better productivity.
- Prompt adjustment to new changes.
- To remove errors or mistakes from improvisation.

The principle of control seeks:

- To prevent violations of the budget law.
  - To prevent the taking of budget money for one's own use.
  - Efficiency in the attainment of objectives and goals.
- [33- 6].

## 3. Implementation of Budgetary Reform

Article 70 of the Organic Budget Law states that the budgetary reform will be implemented in two stages: the



first stage in 1977 and the second stage in 1978-1980. This is being done in order to allow the bureaucratic structure to adapt to the modifications required by the plan.

The main aspects that the first stage in 1977 embrace are as follows:

- Formal implementation of those articles of the law that have immediate effect.
- Implementation of the law in the central government, leaving for the future implementation by the remaining part of the public sector.
- Implementation of a national accounting system.
- Implementation of uniform formats for accounting procedures.

The main aspects that the second stage in 1978-1980 embrace are:

- The use of homogeneous criteria for the elaboration of programs, subprograms and projects.
- Perfection of the accounting system.
- Extension of the budgetary reform to the states, autonomous institutions, and municipalities.

#### 4. Sectorial (Functional) Classification

Article 5 of the Organic Budget Law states that budget expenditures will be classified by the same sectors as those appointed in the national economic plan. Each sector is divided into programs and activities consistent with the law. This sectorial classification is concerned primarily with government expenditure and is designed to facilitate program formulation at the President's level and at the level of legislative review. The sectorial classification sets







forth, on the expenditure side, the broad programs which the government is conducting.

The sectors are considered together in terms of the economic or interest group which is served.

a. Grupo de Politica, Defensa y Seguridad Publica -  
Group of Policy, Defense and Public Security

- Sector de Relaciones Interiores - Internal Relations
- Sector de Relaciones Exteriores - Foreign Affairs
- Sector de Defensa Nacional - National Defense

b. Grupo de Desarrollo Economico - Group of  
Economic Development

- Sector de Finanzas - Finance
- Sector de Desarrollo Industrial - Industrial Development
- Sector de Energia - Energy
- Sector de Comercio - Commerce
- Sector de Turismo - Tourism
- Sector de Hidrocarburos - Hydrocarbons
- Sector de Minería - Mines
- Sector de Desarrollo Agrícola - Agricultural Development

c. Grupo de Desarrollo Social - Group of Social  
Development

- Sector de Promoción Social - Social Promotion
- Sector de Desarrollo Cultural - Cultural Development
- Sector de Asuntos Laborales - Labor Affairs
- Sector de Previsión y Seguridad Social - Social Welfare
- Sector de Educación - Education
- Sector de Ciencia y Tecnología - Science and Technology
- Sector de Salud - Health



d. Grupo de Desarrollo Fisico y Ordenacion Territorial - Group of Physical Development and Territorial Arrangement

- Sector de Vivienda y Planeamiento Urbano - Housing
- Sector de Transporte y Vialidad - Transportation
- Sector de Comunicacion - Communications. [18- 356].

C. THE PHASES OF BUDGETING

1. Formulation and Transmittal

The first step in the formulation of the budget is the adoption by the President of his financial policy. By this is meant the determination by the President of the position he desires to take with respect to such matters as the expansion or contraction of government activities and the expenditure policy for oil revenues.

The Ministers submit their estimates of appropriations needed or desired to the Oficina Central de Coordinacion y Planificacion (OCCP) - Central Office of Coordination and Planning - which submits them to the President together with an evaluation of their contributions to the accomplishment of the National Economic Plan which aims at coordinating the overall economic policy for a period of five years. About the same time, the Oficina Central de Presupuesto (OCP) - Central Budget Office - submits its revenue estimates to the President. The purpose of these preliminary estimates, together with those submitted by the OCCP, is to advise the President with respect to the funds available and the total requests made for these funds.



Upon approval by the President, this tentative budget is ready for consideration by the legislature. It is introduced in appropriate legal form to the Chamber of Deputies in the first five days of the second regular session of the Congress (about October 5).

## 2. Congressional Action

The general principles upon which congressional action is based are outlined in the constitution. Some of the most important of these principles are:

a. The budget must be submitted first to the Chamber of Deputies, who are responsible for the initial discussion of any enactment affecting the fiscal structure. [24- Art.153].

b. The budget must also be examined and voted upon in the Senate.

c. Congress may alter the amounts in the budget entries but it may not authorize expenditures which exceed expected revenues. [34- Art.228]. This means that the Congress has the power to alter the tentative budget and that the executive branch cannot obligate funds in excess of the Congressional authorization.

The Finance Committees of both chambers must work within the limits stated in the Constitution and the Organic Budget Law. In budgetary matters, three information gathering methods are used: written questions, hearings, and meetings.

When a committee receives the estimates, it sends a list of questions to the Minister of Finance. The format



of the questions varies but, generally, the questions are aimed at determining possible changes in the policy of the ministry and at getting detailed information about the estimates. The Ministry of Finance is required to prepare the answers. In practice, however, the questions are referred to the ministry concerned, which prepares the answers and sends them back to the Ministry of Finance. The consistency of the answers with government policy is checked, and they are sent to the committees.

Ministers may appear at their own request before a committee, and the chairman of a committee may also ask for a minister's appearance. The ministers, assisted by experts, present the budget and answer questions put by committee members.

After the committee stage, the budget is discussed by the whole assembly. Once the budget is approved by both Chambers, it is sent to the President for his signature or veto.

### 3. Budget Execution and Control

Budget execution begins after the enactment of the Budget Law. The new budget reform act ensures that budget execution will preserve the intent of the legislature but, at the same time, it permits a degree of flexibility in action at all levels of budget administration.

Legislative intent with respect to a program is quantified in financial terms in the budget authorization, but it is generally the responsibility of the program administrator





to interpret and apply this intent. To this end, Article 45 of the Organic Budget Law states that when a person responsible for a program foresees the non-fulfillment of a goal, he will inform his superiors and propose alternative solutions. Accordingly, the Central Budget Office is informed of such situations. Article 46 of the same Law also states that non-fulfillment of a goal will entail penalties.

Budget execution has been designed primarily to ensure that the financial limitations expressed by the legislature are followed. Budget execution has been traditionally conceived of as almost wholly a matter of funding constraints and effecting savings during the fiscal year; but some deficiencies arise from circumstances beyond anyone's control, such as when costs increase because of inflation, or when low-cost material becomes unavailable and higher cost materials must be substituted, or when personnel costs rise. In these circumstances, if the program intent of the legislature is to prevail, the government agency may request additional funds from the Central Budget Office, which may submit a request to the President for discussion in the Council of Ministers. [33, Art. 33]. To provide these funds, the executive branch has a contingency appropriation called "Rectificacion de Presupuesto" - Budget Rectification.

#### 4. Review and Audit

The Finance Minister and the government agencies are responsible for ensuring that the obligations they incur, and the resulting expenditures, are lawful with respect to



appropriations or entries. The Congress, however, obtains an independent check of obligations and expenditures through the "Contraloria General de la Republica" (CGR) - General Comptroller of the Republic - which is headed by the "Contralor" - Comptroller. The CGR controls the revenues and expenditures and audits the books of the administrative officers responsible for the custody and use of public funds. [7, Art.1].

The Comptroller, the Minister of Finance, and the Central Budget Office have joined forces in outlining a program for the review and analysis of the accounting needs of the government. To this end, the "Direccion de Contabilidad Administrativa" (DINCA) - Direction of Administrative Accounting - has initiated studies of requirements in specific areas:

- The development of a National Accounting and Reporting System.
- The simplification and improvement of disbursement and collection procedures.
- The improvement of agency accounting and reporting procedures.
- An examination of special accounting problems in particular agencies.

The DINCA developed a document, Sistema de Contabilidad de la Ejecucion Financiera del Presupuesto para los Organismo de la Administracion Central" (Accounting System of Financial Execution of the budget for the Central Administration Offices), which is now in effect to carry out the requirements cited above. [17, 2-11].



To maintain flexibility, the executive branch may effect transfers within the same program, subprogram or entry, but it must inform the Congress (finance committees) and the CGR of the transfers. [33- Art.36].



## V. PROGRAM BUDGETING IN THE VENEZUELAN NAVY

### A. THE RESOURCE ALLOCATION PROCESS

#### 1. The Ministry of Defense Budget Process

Venezuela's Constitution proclaims the principles of national independence, security, peace and stability. It advocates international cooperation, democracy and self-determination of people, and repudiates wars, conquest and economic predominance as instruments of international policy.

National sovereignty is asserted over all the land and airspace and over the territorial sea three nautical miles from the coast plus an additional nine-mile contiguous zone and the continental shelf.

The legal instrument provided to assure and to warrant the national defense is the Armed Forces, according to Article 132 of the Constitution which states:

The National Armed Forces form a nonpolitical, obedient and non-deliberative institution, organized by the state to insure the national defense, the stability of democratic institutions, and respect for the Constitution and the laws, the observance of which shall always be above any other obligation. The National Armed Force shall be at the service of the Republic and its legal powers not at any person or political party. [34- 2].

By law, the Armed Forces, after executing its first constitutional obligation of defending the integrity, independence and freedom of the nation, shall:

- Insure the fulfillment of the Constitution and the laws of the republic.
- Maintain public order.





- Protect legal traffic, industries and commerce.
- Support the legally constituted authorities and functionaries according to the laws and military regulations.
- Protect persons and their properties; and
- Prevent infringement upon the laws and regulations of navigation, commerce and fishing, and international treaties.

The military establishment constitutes an instrument at the disposal of the nation which may be applied to achieve national objectives, just as diplomatic, economic, and other available means may be applied.

a. Factors Influencing the Budget Process

The Minister of Defense for the PPBS tends to be sensitive to the following considerations or factors:

(1) Political Factors. Venezuela, since independence, has never faced a serious threat of invasion by a foreign power, nor has it resorted to arms in any international dispute. With a relative absence of external aggressors, the Armed Forces have undertaken several new missions designed to contribute to the national development effort.

These basically nonmilitary activities grew out of the civic action programs of the 1960s, which had been designed to promote rural develop and, in so doing, to build rapport with the local population and thus undermine popular support for the guerrillas, which threatened the nation's internal security. All branches of the Armed Forces participated in successful counter-guerrilla activities that strengthened both the Armed Forces and the Venezuelan democracy.



In the 1970s the Armed Forces continued to engage in civic action projects, the majority of which were aimed at integrating distant and hitherto inaccessible regions into the national economy. For example, the Army's Gran Sabana Operation constructed a 200-mile highway to open communications and transportation with the Guayana Highlands near the Brazilian border. In a similar operation the Army constructed a highway and an airport in the remote Amazonas Territory; in the Margarita Island Operation the Navy assisted in the construction of an aqueduct. The Air Force has also conducted several operations aimed at constructing facilities so that food, medicines, and educational materials can be flown to otherwise inaccessible locations. In addition, both the Air Force and the Navy provide transportation to many areas of the country not served by commercial operations.

Other military operations are aimed at effecting improvements in nonmilitary areas such as education, health, agriculture, and fishing and providing assistance during disasters such as earthquakes and floods. Many of these operations are conducted in conjunction with other government agencies, such as the Ministry of Public Works. The professional know-how and human resources of the Armed Forces are put to productive nonmilitary use in the nation's development. The national goal of economic and social development was successfully integrated into the mission of the Armed Forces in 1970.



A final mission, still largely in the planning stages, is the establishment of a national military industry. Longer-range plans include the establishment of naval and aeronautical support industries. The ultimate objective of these plans is to realize the capability of satisfying all arms requirements of all three services.

(2) Economic Factors. In 1960 a Venezuela initiative was largely responsible for the formation of the OPEC Cartel with the Arab nations in order to maintain a high export price for oil. OPEC has played a significant role for Venezuela, mainly because oil revenues have represented the principal source of government income.

In the mid-1970s Venezuela embarked on a program of industrial and agricultural expansion unrivaled in degree of ambitiousness in its own history and probably in that of any other Latin American country. Profits from the 1973-74 four-fold increase in oil prices made it possible to entertain the idea of goals that would have been impossible a few years earlier. Thus, diversification of what had been a petroleum-based economy was a key-note of the 1976-80 national economic plan that set forth the specific projects now being undertaken. Venezuela's nationalism, symbolized by the administration of its own natural resources and a still incipient economic development, has come to emphasize the need for a defense establishment whose presence, mainly represented by the possession of modern forces, may act as an instrument of unity and motivation. A sense of security





and solidarity accruing from a strong defense establishment ties citizens to a nation-state, especially in times of national significance. [13- 28] and serves as a foundation for ambitious projects which require the support of the entire nation.

"The Armed Institution is a symbol of the national sovereignty which at this time is important for the country. The responsibility of all Venezuelans is the affirmation of the economic sovereignty over its natural resources ...." [37- 6]. These words were expressed by President Perez in January 1976 at the swearing in ceremony of the new Minister of Defense. They reflect the singular position that the Armed Forces have received in the context of national security and national development, a position of protection and defense of Venezuela's natural resources.

(3) Strategic Factors. The nature of Venezuela's political and economic interests inevitably brings other interests into focus. Venezuela depends heavily on sea lanes of communication; the Caribbean Sea and the part of the Atlantic Ocean contiguous to the Venezuelan coast are essential to Venezuela's well being. The nation has been vitally interested in this matter, and the Navy, equipped with conventional but modern forces, has played its role with a peaceful, quiet excellence. [23- 29]. Perhaps the greatest strategic significance of Venezuela, besides its access to important maritime lanes of communication into the Caribbean, is its wealth of natural resources, many of which lie relatively





untapped: petroleum and iron reserves, as well as the almost unexplored Federal Territory of the Amazonas, a vast area of high plateaus and rolling plains south and east of the Orinoco River, comprising 45 percent of the national territory. Among the resources of the latter area are mineral deposits such as oil, iron and probably bauxite, titanium and uranium. [14- 17].

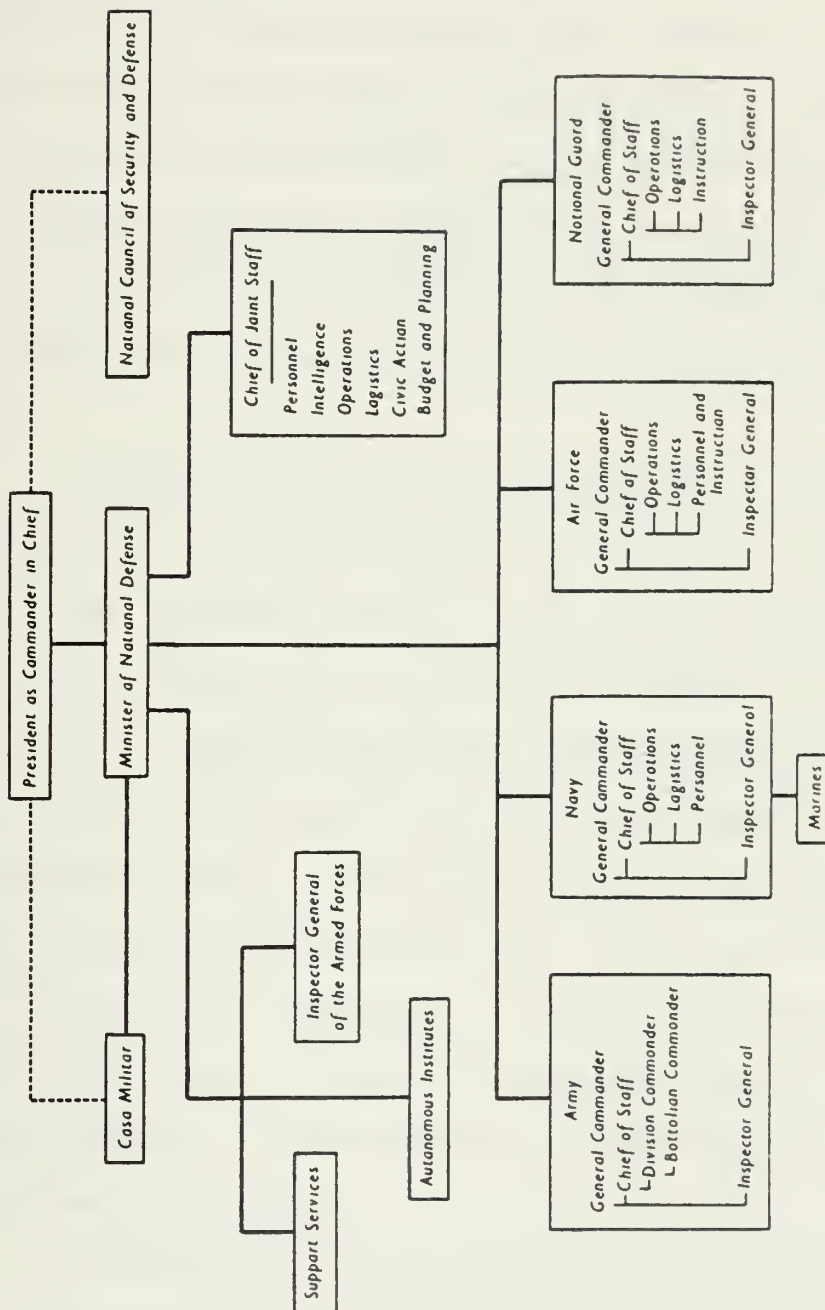
(4) Venezuela and Its Border. Venezuela is the only South American country that has never gone to war with one of its neighbors. In the 1970s, however, the persistence of two long-standing border disputes, one with Colombia to the west and the other with Guyana to the east, kept the Armed Forces on alert for such an eventuality. [4- 254].

b. Force Structure

In the preceding section the internal security and external defense requirements of Venezuela were discussed since both of these are principal determinants of the composition of Armed Forces. In this section the Force structure is described to provide a reference for subsequent discussions of the military budget process. [Exhibit 8].

The responsibilities for national defense, both external and domestic, have constitutionally been delegated to the three principal services: the Army, Navy and Air Forces. A fourth service, the National Guard, has been assigned specific functions with respect to internal security, customs and forestry.





Source: Ref. 4

Exhibit 8



The President is the Commander-in-Chief of the Armed Forces. He is advised by the Casa Militar (Military Household), which also functions as a presidential guard unit. The President's principal advisory body, however, is the Consejo Nacional de Seguridad y Defensa (CNSD) - National Council of Security and Defense - which is composed of the ministers of the interior, foreign affairs, national defense, and finance; the Inspector General of the Armed Forces; the chief of the joint staff; and any others appointed by the President.

The Minister of National Defense is a cabinet member and thus an appointee of the President.

The budgetary process related to national defense is the responsibility of the Ministry of Defense. Since 1958, by decree of the Junta de Gobierno, the Commandant General of each Service has been responsible for the command, organization, administration, and instruction of his own branch, and each reports directly to the Minister. For this reason, although a joint staff functions in areas of concern to all four service branches, it does not function as an intermediary between the Ministry of Defense and the Service branches within the chain of command.

The Junta Superior de las Fuerzas Armadas (JSFA) - the Superior Junta of the Armed Forces - is comprised of the Minister of Defense who presides over it, the Chief of the Joint Chiefs of Staff, the Commandant General of each Service, four Officers General or Superior (one for each



Service) as appointed by the Minister of Defense, and the Director of the Service of Military Justice who acts as secretary. [3- 46].

c. Organizational Elements

The roles of the major organizational elements in the Venezuelan Navy budgetary process are as follows:

- (1) Estado Mayor General de la Armada (EMGAR) - Staff of the Navy. The function of this

body is to establish and prioritize its goals in the POA (Operative Annual Plan) and to forward the plan to the COMGEMAR for further approval. The EMGAR staff also designs the financial plan of the Navy (FNP), and develops an analysis of the Navy's mission as it relates to national defense and development. This analysis is included in the annual budget.

- (2) Comite de Programacion y Presupuesto (CPP) - Programming and Budget Committee.

The COMGEMAR presides over this committee, whose members include the directors of the major staff offices and fleet and Marine Corps representatives. They review the fundings of the DIPPE during the budget formulation process and they initiate financial adjustments and grant final approval of the budget.

- (3) Direccion de Presupuesto y Programacion Economica (DIPPE) - Direction of Budget and Economic Programming. This body

suggests alterations to the budget structure of the Naval defense program to the COMGEMAR. It translates objectives into programs and it initiates the budget formulation process. It also analyzes the requirements of the individual activities. [36- 2].





#### d. The Planning Phase

The Venezuelan Navy's planning and programming process are integrated into the Ministry of Defense's Planning, Programming and Budgeting System (PPBS).

The planning phase is concerned with the National Defense Plans which are developed by the CNSD and JSFA and the Joint Staff.

The Comandante General de la Marina (COMGEMAR) - Commandant General of the Navy - acting through the Estado Mayor General de la Armada (EMGAR) - Staff of the Navy - formulates policies, objectives and the force structure in long-range, mid-range and short-range planning stages. [36- 3].

(1) Long-Range Planning. A strategic evaluation provides an official statement of the requirement for the Venezuelan Naval Force over the next 10 years. The estimate on which this evaluation is based discusses how environmental, economic, international political and technological changes will influence national security. Also, guidance for long term research and development activities is provided. The program phase commences with the promulgation of the "Concepto Estrategico Naval" (CEN) - Naval strategic concept. This document provides the policies of the COMGEMAR, and details the objectives and structure of the Navy. [36- 3].

(2) Mid-Range Planning. Mid-range planning is generated from information contained in the CEN. The mid-range planning document describes the Navy's position in the first years of the long-range plan. It is tied to the National



Economic Plan. The mid-range plan is consistent with the Organic Law of Budget, Article 2, which states that the public budget manifests the nation's plan in those features that demand from the public sector the resources conducive to the accomplishment of economic development and the social and institutional goals of the nation. The same article points out that the budget is the tool of national planning, and its formulation, approval and execution must follow the orientation of the "Plan Operativo Anual" (POA) - Operative Annual Plan.

During the Navy's mid-range planning process the POA is produced. By means of this document, the COMGEMAR develops a naval program control that states the annual objectives and budget estimates; these are divided into four areas:

- Naval Operations (Fleet and Marine Corps)
- Logistic Support
- Human Resources Administration
- Development and Capacitation of Human Resources

During the mid-range planning process the financial plan of the Navy (FPN) is developed. The FPN provides guidelines for fiscal planning in the Navy. [36- 3].

(3) Short-Range Planning. Short-range planning provides a statement of current capabilities, considering constraints such as budget environments. Short-range planning requires two document. The first is the Force Plan Document which provides the Naval Force development, logistic guidance



and administrative support to meet annual objectives. The second is the Mobilization Plan Document. This document provides direction and guidance for the development of the Naval Forces to undertake prompt and sustained combat. [36- 2].

e. Programming and Budgeting Phase

There is no clear separation point between programming and budgeting in the Venezuelan Navy. The major steps of this process are outlined below:

- (1) By early October the EMGAR has established a priority ordering for the approved concepts and objectives which were developed during the planning phase. These concepts and objectives shape the POA.
- (2) The POA is then reviewed by the CPP and submitted to the COMGEMAR.
- (3) After the COMGEMAR has reviewed the POA, it is forwarded to the DPPE.
- (4) General guidance is issued from the DPPE for all sponsored activities. In this step there are interactions among activities in order to avoid duplicity of effort.
- (5) By early November the activities have formulated their resource requirements, including men, money and material.
- (6) In April of the next year the DPPE compiles the budget estimates of the different activities and takes any action required to insure the proposals meet the general guidance.
- (7) The budget estimate is submitted to CPP for review and adjustment as needed.
- (8) By May the budget estimate has been submitted to the Minister of Defense, where it is consolidated with the budget estimates of the other services.
- (9) After receiving the approval of the Minister of Defense the consolidated budget estimate is submitted to the Minister of the Treasury.
- (10) In June allocations are assigned to each service.





(11) In July the services submit their budget requests, based on the allocations, to the Minister of Defense, and later to the Minister of the Treasury. [36- 4].

f. Major Programs

The major programs identify specific services.

The major programs of the defense sector are:

Program 01	Central Administration
program 02	Land Defense
Program 03	Naval Defense
Program 04	Air Defense
Program 05	National Guard
Program 06	Presidential Guard
Program 07	Education
Program 08	Support Services
Program 09	Social Benefits

(1) The Naval Defense Program. Program 03:

"Naval Defense" provides forces for protecting the sea, lakes and rivers of the nation. The sponsor of this program is the Commandant General of the Navy (COMGEMAR). The Naval Defense Program is subdivided into activities, which are administrative units employed to carry out the program. The activities are:

Activity 01: Superior Direction. This activity includes major organizational elements which have functions such as advisor, staff inspection, budgeting, and EDP.  
Sponsor: the COMGEMAR.

Activity 02: Naval Operations. This activity includes the fleet and the Marine Corps and other activities such as the Intelligence, Communication and Hydrographic Services. Sponsor: the Chief of Naval Operations.

Activity 03: Support Services. These are activities that support the operating commands, such as Naval Bases, Naval Stations, Food Services, Maintenance and Building Construction. Sponsor: the Chief of Logistics.

Activity 04: Development and Capacitation of Human Resources (Training). This activity includes the Naval War College, Naval Postgraduate School, Naval Academy, and the Naval and Marine Corps Training Center.  
Sponsor: the Chief of Education.





Activity 05: Administration of Human Resources.

This activity includes activities related to military professional development, civilian personnel, the well being of Naval personnel, medical care, and Naval justice. Sponsor: the Chief of Personnel.

Activity 06: Support of Military Personnel. This activity is a consolidation of activities relative to military pay and other benefits. Sponsor: the Chief of Personnel. [36- 8].

## 2. Budget Formulation

### a. The Director of Finances' Role in Budget Formulation

The function of the Director of Finances - Comptroller - can be considered from three points of view: as a comptroller, as an accountant, and as an advisor in budgetary matters.

As a comptroller, he checks the regularity and accuracy of all proposed expenditures.

As an accountant, he keeps a record of the financial transactions of the Navy.

Finally, because he fulfills these two functions, the Director of Finances is familiar with what happens in the Navy, so the DIPPE uses him as an advisor when the Navy budget estimates are sent for examination. This function, in fact, has both a formal and an informal aspect, the latter being the more important. The formal aspects consists of written reports and the informal aspect consists of oral contacts between the Director of Finances and the DIPPE. In these private dealings, the Director of Finances can submit his views more truthfully; he can refer to the main weaknesses of the Navy and explain some of its problems, and he can make



various comments on the soundness of the Navy's estimates. He can point out over-evaluations, for example, or provide details on the amount of appropriated funds which have been carried over from one year to another. These meetings, which generally include the EMGAR, CPP and DIPPE, can very well determine the outcome of the budget formulation process.

b. Budget Execution and Control

Funds flow to the Navy from the Minister of Defense who issues an authorization letter for all of the services.

The Director of Finances reallocates these funds to the different activities, and establishes expense limitations for individual programs. The activities must execute and control their programs in compliance with the directives issued by the Director of Finances.

The commanding officer of each unit must provide a monthly statement of payments made to the Director of Finances. These statements must be supported by invoices for all payments.

The Director of Finances can conduct audits of Naval activities at any time. When an audit is ordered, the auditor makes examinations as necessary to:

- (1) Determine whether controls are adequate and consistent with rules and directives of higher authority.
- (2) Determine whether accounting for receipts and expenditures is adequate.
- (3) Check or test the accuracy of reports, as well as their timeliness and usefulness.



## VI. COMPARATIVE ANALYSIS OF THE UNITED STATES AND THE VENEZUELAN NAVY BUDGET PROCESS

Each country has its own way of treating economic and social problems. The strategies of its government create a recognizable political style. The budgetary process is inevitably a part of that style.

The subject of this chapter is an analysis and comparison of the most important aspects of the United States and the Venezuelan budget processes; both similarities and differences are addressed.

With regard to the similarities, Aaron Wildavsky writes: "There are constants in budgeting, no matter where practiced, that lead to regular patterns of behavior. Everywhere there are spenders and savers." [38- 9].

With regard to the differences, a significant point is that the United States budget is larger than the Venezuelan budget. In relation to this point, Wildavsky writes: "The size alone can alter the relationships in the budgetary process." [38- 10].

The methodology used in this comparative analysis traces through the different phases of the budget cycle, and PPBS, in both governments. It addresses what the experts in the field think about the main features of the budget process.



## A. THE BUDGET CYCLE

### 1. Executive Formulation and Transmittal

#### a. Similarities

Thomas D. Lynch has made the following comments about the formulation process:

In the policy formulation process, the budget is developed and approved. Policy positions become operationalized as the budget is prepared. The agency is the preparer and significant advocate of the budget. The agency's clientele group and elements in the legislative and the highest levels in the executive branch may also support the budget on aspects of an agency's budget, but the agency is the advocate. The reviewers and modifiers of the budget include the department, the chief executive and his staff, and the legislature. A variety of conflicting influences converges on the budget process from various levels in the executive branch, the legislature, clientele groups, and media, and even sometimes the judiciary branch. [15- 59].

The above comments can be applied to both the U.S. and the Venezuelan budget processes.

#### b. Differences

(1) The participants in this phase in the U.S. are: the President, the OMB and the government agencies.

In Venezuela, besides the President, the OCP (which is the counterpart of the OMB) and the government agencies, the OCCP plays an important role during this phase.

(2) The U.S. budget process starts about six months before the budget is submitted to the Congress. In Venezuela this period is nine months. Related to the budget timetable, Anthony states:

The problem of timing is a delicate one. If the budget is prepared too far in advance, it will not be based on the most current information. If, on the other hand, not enough time is allowed, the process may be rushed





and hence superficial. The budget process should be arranged to allow adequate time for:

- 1) Dissemination of instructions, often through several levels of budget organization, to the personnel who will prepare the budget. Each level may have additional specific instructions for organization units that it supervises. Time must be allowed for the preparation of these instructions.
- 2) Preparation of initial budget. If adequate time is not allowed, the budget may be put together by the budget staff without adequate participation by line managers. This creates the feeling among lower level managers that they are divorced from budget decisions.
- 3) Review and adjustment. Time must be allowed and specified for adequate review at each level of the organization.
- 4) Appeal (called "reclama" in the federal government). In order for lower level managers to appeal a budget decision, they must be informed of the results of the next higher headquarters' decisions before these decisions are passed on up the organization hierarchy. [1- 232].

Anthony also points out:

Late submissions should be avoided, if at all possible, at each level of the organization. Acceptable reasons for late submissions are:

- a. Late changes in critical programs that cannot be delayed until the next financial period.
- b. Late changes due to last minute changes in instructions.
- c. Rewrites necessary to stay within budgetary ceilings which have come to light only after review of the combined programs of several lower-level responsibility centers. [1- 233].

## 2. Congressional Action

### a. Similarities

(1) The Venezuelan Congress is structured in a similar manner to the U.S. Congress, and the Constitutions of both countries give similar powers to the Congressional



committees with respect to the budget process: The committees can increase or decrease the amounts recommended by the President.

(2) In both governments agencies play advocate roles. Agencies resort to a variety of budgetary strategies to defend their bases against cuts, to increase the size of their bases by moving ahead with old programs, and to expand their bases by adding new programs. [21- 18].

(3) In the same way, the members of the U.S. House Appropriations Committee and the Venezuelan Finance Committee consider themselves, as Wildavsky states, "Guardians of the treasury who take pride in their frequent reductions in estimates." In both congresses the committees have a great deal of power. [38- 25].

#### b. Differences

The functions performed by the legislative committees (Authorization), and the Appropriations Committees (Appropriation), in the U.S. are accomplished in the Venezuelan Congress by the Finance Committee. The reason for this is that in the Venezuelan budgetary process no distinction is made between an authorization and an appropriation. The Escuela Nacional de Administracion Publica - The National School of Public Administration - defines an authorization and an appropriation simply as an appropriation. The school defines an appropriation as a report with congressional approval in which a person or government is authorized to



spend or to incur obligations of budget monies for specific purposes. [32- 2].

Anthony makes a clear distinction in this matter by point out that "the first legislative step in the budget process is the enactment of Authorization legislation, which authorizes the executive branch to carry out specified programs. Authorization legislation is not permission to spend money. Such permission comes only from an appropriation act, which is ordinarily enacted after the passage of the authorization act." [1- 292].

John Soloma observed: "The distinction between authorization and appropriation is basic to the congressional budget system; it is one of the major organizational principles of the Congress itself. Since 1837 the rules of the House of Representatives have forbidden appropriation for any expenditure not previously authorized by Law." [21- 14].

### 3. Budget Execution and Control

#### a. Similarities

(1) The U.S. procedure for releasing a budget authorization is known as apportionment; its major purpose is to regularize the rate of obligation to minimize the need for deficiency or supplemental appropriations.

After the approval of a budget authorization by the Congress, the specified agency must transmit a request for apportionment to the bureau. This request outlines the agency's need for funds over the forthcoming fiscal year, and recommends an apportionment, usually on a quarterly basis.





The Venezuelan procedure, before the budget reform, was mechanical: The OCP simply assigned monthly rigid quotas for program execution. The present procedure is similar to the U.S. procedure described above.

(2) Another similarity found in this phase arises from Jesse Burkhead's statement, "In the United States government the tradition has long been to permit no transfer among agencies and very little within agencies, except on specific occasions and for specific purposes, as stated in annual appropriation acts. For example, a department might be permitted to transfer up to 5 percent from one title to another." [5- 349]. The Venezuelan government also does not permit transfers among agencies but, in order to maintain flexibility in program execution, the executive branch can effect transfers within the same program.

(3) Burkhead points out another important aspect:

The carrying out of the budget is an executive responsibility. This is clearly recognized in parliamentary governments, where the legislature discharges its function when it authorizes the budget and again when it reviews the record of accomplishment in program, legal and financial terms. In the United States the lines are not so clear-cut, and the history of budgeting is replete with cases in which the legislative body intervenes in execution, to modify decisions it has previously made, to influence administrative actions, to interpose independent checks on specific transactions. [5- 340].

In Venezuela this link is also not clearly defined and, as in the U.S. there are many cases in which the Congress interferes. The Venezuelan Organic Law of Budget is not clear and specific in this matter.





## b. Differences

The President of the U.S. has been authorized specific funds which are available only for designated purposes, such as disaster relief, defense aid, an emergency fund for international affairs, and an emergency fund for national defense. These authorizations are helpful in meeting emergency situations as they arise within these areas, but the funds appropriated to the President are not generally available for run-of-the-mill operating contingencies of departments and agencies. In such cases flexibility in budget execution must be obtained by means of other techniques, operating within appropriation limits. [5- 349].

In Venezuela, government agencies can obtain additional funds from the Budget Rectification Appropriation that is provided to meet requirements that are not related to emergency situations.

## 4. Review and Audit

### a. Similarities

The primary function of an audit is to assure that the rules governing the use of funds have been complied with, and that reported data are accurate. [1- 309]. Audit principles are quite similar in both countries. Basically, the U.S. and the Venezuelan governments follow the fundamentals stated in the Standards for the Audit of Governmental Organizations, Programs, Activities and Functions, by the U.S. Comptroller General. These are:



1) Financial and Compliance - determines:

- Whether financial operations are properly conducted.
- Whether the financial reports of an audited entity are presented fairly.
- Whether the entity has complied with applicable laws and regulations.

2) Economy and Efficiency: Determines whether the entity is managing or utilizing its resources (personnel, property, space, and so forth) in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures or organizational structures.

3) Program results: Determines whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorizing body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost. [1- 310].

b. Differences

There are no significant differences with respect to reviews and audits.

B. THE PLANNING, PROGRAMMING, AND BUDGETING SYSTEM

1. The Planning Phase

a. Similarities

The following is a good description of the planning process, as stated by Anthony: "In the strategic planning process, management decides on the goals of the organization and the main strategies for achieving these goals." [1- 183]. Conceptually, the U.S. Navy and the Venezuelan Navy employ very similar planning processes. Through the JSPD and the CEN both navies provide statements of recommended military



objectives derived from national objectives, and descriptions of military strategies designed to meet these objectives.

b. Differences

(1) Basic differences exist between the JSPD and the CEN because the objectives of the U.S. Navy differ from the objectives of the Venezuelan Navy; e.g., JSPD Volume I consists of "the basic statement by the JCS of their recommended military strategy; concise statements of the national security objectives and the basic military objectives derived therefrom; specific military appraisals and strategic concepts, on both a worldwide and regional basis." [19- 8]. The military objectives of the Venezuelan Navy are only on a regional basis.

(2) The planning phase in the U.S. DOD resumes in January with the preparation of the JSPD. The Venezuelan Ministry of Defense conducts planning on a continuing basis.

(3) The strategic concepts in the CEN are submitted separately by the services.

In the next sections, the Planning and Budgeting phases, along with the programming structure, are addressed utilizing a different approach than that of simply describing similarities and differences because of the different philosophy held by the Venezuelan government in viewing these aspects of the budget process. However, the discussions always highlight any possible differences or similarities that occur.



## 2. Programming Phase

The purpose of the programming phase is to translate the approved concepts and objectives, prepared during the planning phase, into a definitive structure expressed in terms of time-phased resource requirements, including men, monies and material. [19- 15].

a. According to Anthony:

The process involves the following principal steps:

1. Preparation and dissemination of guidelines.
2. Preparation of program memoranda.
3. Staff analysis of program memoranda.
4. Discussion of proposed program with line managers.
5. Discussion with higher authority and approval.

Guidelines:

The process starts with the preparation and dissemination of guidelines. These are prepared by the programming staff, discussed with and approved by top management, and disseminated to the operating managers who are responsible for programs. As a minimum, the guidelines contain (a) an indication of the constraints, principally resource limitations, within which the program should be prepared, (b) a discussion of what constitutes a program, and (c) instructions for the format and content of the program memoranda. [1- 216].

The U.S. DOD provides guidelines in the Consolidated Guidance, which has the following sections:

- Defense Policy and Guidance
- Defense Force Planning Guidance
- Fiscal Guidance
- Material Support Planning Guidance
- Guidance for POM preparation
- Other additional planning guidance. [19- 19].





The guidelines stated by Anthony are followed by the Venezuelan Ministry of Defense through a Directiva de Presupuesto (DDP) - Budget Directive.

b. Program Memoranda

According to Anthony:

The program memorandum describes the objectives that are relevant to the program; the specific activities that are proposed for accomplishing these objectives; and the resources that are estimated to be required in carrying on these activities, including both resources used by the organization itself and services that are required from other responsibility centers. [1- 217].

In concept, the POM and POA are quite similar.

c. Staff Analysis

This is another important event which has been pointed out by Anthony:

When a program memorandum reaches headquarters, the staff makes a preliminary examination of it to insure that it conforms to the guidelines. If it does not, a staff member sits down with the program manager and reworks the document so that it does conform. Next, the separate memoranda are combined into an overall picture of the program for the whole organization. This may be called a "program summary."

This "first cut" at the total program will probably reveal either or both of the following problems: (1) the total of individual program proposals exceeds the resources available, or (2) there is a lack of balance, such as mission units planning to use more resources from service units than the service units can provide, or two managers planning overlapping programs on the same target group. The staff discusses these inconsistencies with program managers, attempting to resolve as many of them as a staff agency can resolve, but remembering that top management, not the staff, must make actual decisions. If individual program proposals accompany the program memoranda, these are also analyzed at this time. [1- 219].

Staff analysis is conducted by the U.S. DOD through the JPAM process in which the POM is evaluated.



Staff analysis is performed in the Venezuelan Navy by the EMGAR, DIPPE and program sponsor. After they evaluate and analyze the POA and the service proposals, they each generate a report for each service.

d. Discussions with Line Managers and Higher Authority

In this step Anthony points out:

The purpose of the preceding step [staff analysis] is to assemble information in a way that facilitates the discussion of proposed programs that is carried on between top management and the program managers, which is the most important part of the whole process. This discussion is conducted in various ways. One common method is to have a preliminary general meeting of all program managers, at which overall problems are discussed, and to follow this meeting with a discussion with each manager individually. This discussion must take place between line managers. Although staff people can provide clarification, data, and other assistance, the end product of the discussion is approval of the program, and such approval can only be given by line management. [1- 219].

The U.S. DOD follows this step during the meeting held by the Secretary of Defense to discuss major unresolved issues following staff preparation of the PDMs.

In Venezuela this process is combined with the review procedure.

3. Budgeting Phase

The budgeting phase is the final effort of the PPBS cycle. The annual budget expresses the financial requirements necessary to support approved forces and programs.

In concept, the U.S. budgeting process follows, but is separate from, the programming process. The budget is supposed to be a fine tuning of the program for a given year,



incorporating final decisions on the amounts to be spent for each program, and making clear who is responsible for carrying out each part of the program. These decisions are supposed to be made within the context of the basic decisions that were made during the programming process. About this Anthony states: "In practice, no such clean separation between programming and budgeting exists, nor can exist. Even in organizations that have a well-developed programming system, circumstances may be discovered during the budgeting process that require revision of program decisions. In organizations that have no recognizable, separate programming process, program decisions are made as part of the budgeting process." [1- 228].

This is the Venezuelan case where both programming and budgeting are considered to be programming.

Anthony makes a clear distinction between programming and budgeting. He states: "The purpose of the programming process is to make decisions about programs. As such, it involves more creativity and imagination than does the budgeting process, it does not require as accurate estimates of the cost and revenues, it is less constrained by considerations of the resources that are available, and it often does not require decisions on which responsibility centers are to be responsible for carrying out each program." [1- 228].

In contrast, Anthony also states with regard to the budgetary process: "The purpose of the budgetary process is to decide on the actual operating plan for a year.





The budgeting process requires careful estimates of cost and revenues, and the budget must be constructed within a ceiling that represents estimated available resources." [1- 228].

#### 4. Program Structure

The basic concept of the Venezuelan program structure is to relate the cost of a government activity to the services it provides. The structure consists of a grouping of basic units of governmental operations, starting with the most general and proceeding to the most specific. It includes the following categories:

- Group
- Sector
- Program
- Activity

The Venezuelan program structure has two primary uses: first, as a format for the presentation of budgetary information and second, as a framework within which resource allocations are made. [33- 4].

Anthony breaks down the program structure in three "layers." He writes:

At the top are a relatively few program categories (sometimes called major programs), at the bottom are a great many program elements; these are the smallest units in which information is collected in program terms. In between are summaries of related program elements which are called program subcategories. In a simple system, there may be no need for program subcategories; program elements are aggregated directly into programs. In a complex organization, by contrast, there may be several levels of program subcategories. [1- 88].

This structure is employed by the U.S. government according to instructions issued by the OMB. [12- 23].





The group is the basic output category utilized by the Venezuelan government. Each group has a purpose, or goal, which is intrinsically different from that of the other groups, e.g.,

- Group of Policy - Defense and Public Security
- Group of Economic Development.

No similar output categorization exists in the classification system used by the United States.

Groups, in turn, are divided into sectors that are assigned to a particular Ministry. A Sector is defined in terms of the services provided, e.g.,

- Sector - National Defense
- Sector - Education

At this level, the U.S. government uses program categories, which are defined differently. According to OMB: "Program categories are groupings of agency programs (or activities or operations) which serve the same broad objective (or mission) or which have generally similar objectives." [12- 33].

According to Anthony, the primary purpose of the classification of major programs "is to facilitate top management judgment on the allocation of resources. Similarly, the primary purpose of the classification into program categories is to facilitate middle management judgment on the allocation of resources within programs. The program structure should therefore correspond to the principal objectives of the organization. It should be arranged so



as to facilitate making decisions having to do with the relative importance of these objectives." [1- 89]. It is fair to state here that both the Sector and the program category classifications satisfy Anthony's requirements.

At the next level, the Venezuelan program structure uses the program classification, which is defined as a division of sectors into units which identify more specific services. At this level, the U.S. uses Program Elements, which are defined by OMB as "Agency activities related directly to the production of a discrete agency output, or group of related outputs. Agency activities which contribute directly to the output should be included in the program element, even though they may be conducted within different organizations, or financed from different appropriations. Thus, program elements are the basic units of the program structure." [12- 35].

The activity is the last important level found in the Venezuela classification. It is defined as the administrative techniques employed to carry out programs.



## VII. CONCLUSIONS

This thesis has been concerned with analyzing the United States and the Venezuelan Navy budget processes as they operate today, with emphasis on the PPB system. A comparative analysis has been performed in order to apply the United States budgetary experience to the budget of the Venezuelan Navy.

For many years the Venezuelan Ministry of Defense has acted in many ways to modernize its resource allocation processes with the goal of improving control and management, with greater emphasis on planning, but the Venezuelan PPB system progresses slowly because of many barriers. These include a lack of well-trained personnel to execute the system, the hesitancy of personnel to adopt new systems, and the frequent changes that have occurred in political policy.

Within the Venezuelan Ministry of Defense, each military service prepares its basic budget submission, allocating its requests among its own functions, units and activities, and presents additional requests by means of additional credits. Then all of the budget submissions are reviewed and collated by the Minister of Defense's Budget Office.

The most significant findings, related to the aspects expressed above, according to this author's criteria, were as follows.



A. The preparation and execution of the budget demands that close cooperation be maintained between the different participants in the budgetary process in order to:

1. Insure that the budget will show in full the proper priority of the programs-
2. Allocate available funds among the programs according to their relative importance; in other words, the costs of the different programs should be evaluated in order to compare them with their benefits (cost-benefit approach).
3. Develop a management control system to insure the effective and efficient use of available resources.

B. The budget submission procedure followed in the Venezuelan Ministry of Defense is a rather inefficient way of preparing the defense budget. Among its consequences can be cited the conclusion that each service tends to exercise its own priorities, favoring its own unique missions to the detriment of joint missions.

The author also believes that the Venezuelan government, in order to fulfill and accomplish its missions, should set forth certain principles of budgetary theory. These principles should be in consonance with those pointed out in 1935 by J. Wilner Sundelson. They are as follows:

1. Principles related between the budgetary system and the fiscal activities of the political unit:
  - a. Programming
  - b. Comprehensiveness
  - c. Exclusiveness.
2. Principles related with the treatment by the budgetary mechanism of the factors included in the system:





- a. Unity
  - b. Specification
  - c. Annuality
  - d. Accuracy
3. Principles about the forms and technique for presentation of the budget contents:
- a. Clarity
  - b. Publicity

It may be desirable to indicate briefly the historic meaning of these principles.

Programming requires that the budget faithfully reflect the provision, orientation and composition of the economic programming of the nation.

Comprehensiveness requires that the budget embrace all of the financial activity of a government and that no extra-budgetary funds be allowed to exist outside of the control of the budgetary process.

Exclusiveness requires that the budget deal only with financial matters, not with substantive legislation.

Unity requires that the budget be presented in gross terms; that is, total revenues and total expenditures should be set forth, not net revenues and net expenditures.

Annuity requires that budgets be presented each year and that they cover only one fiscal year.

Accuracy requires that revenues and expenditures be correctly, although conservatively, estimated.

Clarity and Publicity are self-explanatory. [24- 234].



## LIST OF REFERENCES

1. Anthony, Robert, Management Control in Nonprofit Organizations. Richard Irwin, Ill, 1975.
2. Allen, Loring, Venezuela Economic Development, A Politico-Economic Analysis, J.A.I. Press, 1977.
3. Balda, Cantisani, Legislacion Militar, Editorial, Juridica Venezolana, Caracas, 1967.
4. Blusstein, Howard, Area Handbook for Venezuela, U.S. Government Printing Office, Washington, D.C., 1977.
5. Burkhead, Jesse, Government Budgeting, John Wiley & Sons, Inc., New York, 1966.
6. Burkhead, Jesse, Planning, Programming, Budgeting: A Systems Approach to Management, Fremont J. Lyden & Ernest G. Miller, Rand McNally College Publishing Co., Chicago, 1973.
7. Crecine, John and Fisher, Gregory, On Resource Allocation Process, Institute of Public Policy Studies, Discussion Paper No. 31, October 1971.
8. Department of Defense, Economic Analysis Handbook, Washington, D.C., 1975.
9. Groves, Harold M. and Bish, Robert, Financing Government, Holt, Rinehart & Winston, Inc., New York, 1973.
10. Held, Virginia, PPBS Comes to Washington, Politic, Programs, and Budget, James W. Davis, Prentice Hall, New Jersey, 1969.
11. Hopkins, John, The Economic Development of Venezuela, The John Hopkins Press, Baltimore, MD, 1956.
12. Hinrichs and Taylor, Program Budgeting and Benefit-Cost Analysis, Good Year Publishing Co., 1969.
13. Knorr, K. E., Military Power and Potential, Washington, D.C., Heath & Company, 1970.
14. Lucas, T., Tapping the Riches of Venezuela, The Washington Post, December 23, 1973.



15. Lynch, Thomas D., Public Budgeting in America, Prentice-Hall, Inc., New Jersey, 1979.
16. Quade, E., System Analysis and Policy Planning: Applications in Defense, Rand Corporation, 1968.
17. Moratinos, Ali, Control de la Gestion para la Marina de Guerra, Escuela Superior de Guerra Naval, Caracas, 1978.
18. Quero Morales, Constantino, Imagen-Objetivo de Venezuela, Banco Central de Venezuela, Coleccion de Estudios Economicos, Caracas, 1978.
19. Ruckert, W. C., Fiscal and Life Cycles of Defense Systems, General Dynamics, Pomona Division, 1977.
20. Ruckert, W. C., Fiscal and Life Cycles of Defense Systems, General Dynamics, Pomona Division, 1978.
21. Soloma, John S. III, The Responsible Use of the Power: A Critical Analysis of the Congressional Budget Process, American Enterprise Institute, Washington, D.C., 1964.
22. Shapley, Willis H., Research and Development in the Federal Budget FY 1977, American Association for the Advancement of the Science, Washington, D.C., 1976.
23. Suarez, Manuel, Arms Transfer to Venezuela: A Critical Analysis of Acquisition Process, 1962-1975, Thesis, Naval Postgraduate School, Monterey, CA, 1976.
24. Sundelson, J. Wilner, Budgetary Principles, Political Science Quarterly, June, 1953.
25. Smithies, Arthur, The Budgetary Process in the United States, McGraw-Hill Book Company, New York, 1955.
26. U.S. Navy Programming Manual, OpNav 90p-1D, Washington, D.C., 1971.
27. U.S. Navy Resource Management Guide, Navso P-3047, Office of the Comptroller, Washington, D.C., 1969.
28. U.S. Navy, Practical Comptrollership, Naval Postgraduate School, Monterey, CA, 1976.
29. U.S. Navy, Financial Management in the Navy, Navedtra 10792-D, Government Printing Office, Washington, D.C., 1976.
30. U.S. C 31, Reorganization Plan No. 2 of 1970, 2085, 101 and 102.



31. U.S. Bureau of the Budget, The United States Budget in Brief 1980, Washington, D.C., Government Printing Office, 1979.
32. Venezuela, Escuela de Administracion Publica, Handout, Caracas, 1975.
33. Venezuela, Texto de la Ley Organica del Regimen Presupuestario y sus comentarios, Ministerio de Hacienda, Caracas, 1976.
34. Venezuela, Constitucion de la Republica de Venezuela, Gaceta Oficial No. 662, Caracas, 1961.
35. Venezuela, Ley Organica de la Contraloria General de la Republica, Gaceta Oficial No. 1756, Caracas, 1975.
36. Venezuelan Navy, Directiva General, Formulacion del Presupuesto Anual, DIR-PR-CGM-002, Caracas, 17 Octubre 78.
37. Venezuela, Revista de las Fuerzas Armadas, No. 264, Ministerio de la Defensa, Caracas, 1978.
38. Wildavsky, Aaron, Budgeting: A Comparative Theory of the Budgetary Process, Little, Brown & Company, 1975.





# INITIAL DISTRIBUTION LIST

	No. Copies
1. Defense Technical Information Center Cameron Station Alexandria, Virginia 22314	2
2. Library, Code 0142 Naval Postgraduate School Monterey, California 93940	2
3. Department Chairman, Code 54 Department of Administrative Sciences Monterey, California 93940	1
4. Defense Logistics Studies Information Exchange U.S. Army Logistic Management Center Fort Lee, Virginia 23801	1
5. CDR Jerry D. Horton, Code 54Ht (Thesis Advisor) Department of Administrative Sciences Naval Postgraduate School Monterey, California 93940	1
6. CDR Edwin A. Fincke Department of Administrative Sciences Naval Postgraduate School Monterey, California 93940	1
7. CF Carlos A. Colmenares. L Marina 01- Correo Naval Caracas, Venezuela 101	1







Thesis

187046

C63

Colmenares

c.1

A comparative analysis of the budget process in the Venezuelan and U.S.

30 SEP 81

26953

26952

JAN 2 1982

27201

29042

NOV 14 85

39563

16 FEB 86

33275

16 FEB 86

Thesis

187046

C63

Colmenares

c.1

A comparative analysis of the budget process in the Venezuelan and U.S.

A comparative analysis of the budget pro



3 2768 002 08390 9

DUDLEY KNOX LIBRARY